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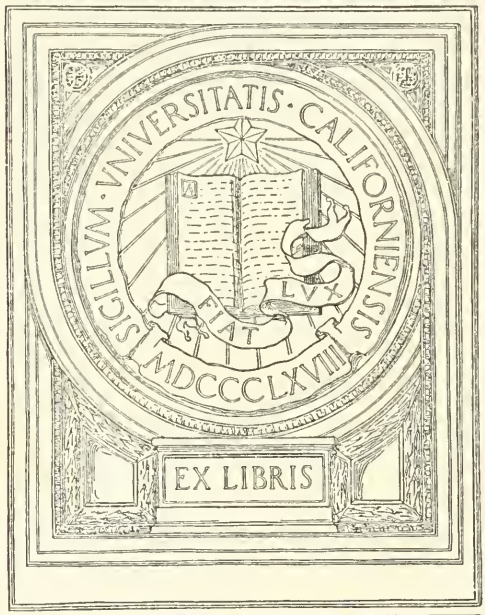

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# INSURANCE

## PRINCIPLES AND PRACTICES

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*SECOND EDITION*

NEW YORK
PRENTICE-HALL, INC.
1922

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*Dedicated to*

PROFESSOR S. S. HUEBNER

*A Pioneer in Insurance Education*

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## PREFACE TO THE SECOND EDITION

The very kind reception accorded this work has made possible a new edition. In availing ourselves of this opportunity, the method of presentation has remained the same, having amply demonstrated its adaptability for business and teaching purposes. The authors are especially grateful for the statements of appreciation received from the insurance press and members of the insurance profession. A number of the minor errors which seem inevitable in a first edition have been eliminated, some miscalculations have been corrected, and some chapters have been brought up to date, although no work dealing with the ever-changing business of insurance can wholly keep pace therewith. The authors are indebted to Dr. R. H. Blanchard and Messrs. I. Bendiner and H. W. Glover for some criticisms and corrections embodied in this revision.

R. R.
H. J. L.

*September, 1922.*

# PREFACE TO THE FIRST EDITION

The significance of insurance as a factor in private and business life has increased tremendously in the past ten years. During that time new forms of protection have been devised, the scope of coverage of policies has been extensively broadened, mathematical problems have received more scientific treatment, methods have been modified by legal requirements and the treatment of policy-holders has immeasurably improved; all of which have popularized insurance and extended its usefulness. This progress has entailed increased specialization and complexity, which require (1) more intelligent buying of insurance, (2) a broader knowledge of the business by agents and (3) a wider recognition of the necessity of insurance education in the training of prospective business men.

This volume is an exposition of the principles and practices of the more important forms of insurance. An effort has been made to prevent practices from obscuring principles; on the other hand sufficient illustrations and forms have been included to vivify and emphasize the principles discussed. In brief, an attempt has been made to write a "practical" book which is something more than a mere compilation of facts and which will serve equally well as a text-book for commercial education in universities and schools of business and a guide to the business man in insurance transactions.

The first section is an effort to coordinate those features of insurance which are common to all its branches. Here the economic services and business uses of insurance are explained, the fundamental principles summarized and the organization of the business described.

Section Two deals with personal insurance, which everyone at least once in his life finds occasion to purchase, and particular emphasis has been placed upon the buyer's viewpoint. The application of the various types of life insurance policies to individual circumstances, the factors which enter into the cost of insurance, the methods of providing for expenses, and the reserves, loan privileges and surrender values which flow from the level premium method are all discussed in some detail because of their fundamental character. The origin and nature of dividends, the legal questions connected with insurable interest, the beneficiary and assignment, fraternal insurance, the

disability clause, industrial insurance and group policies are also fully explained. Not the least important part of this section is that dealing with accident and health insurance, of which no adequate discussion has ever appeared in book form.

Section Three describes a relatively new form of protection which is of interest to every employer—compensation insurance. It includes a description of the nature of the contract, the advantages of the compensation system, the methods by which claims are settled, the factors controlling rates and the methods of regulating reserves.

Section Four deals with fire insurance, covering the mortgagee's interest in policies, agency and brokerage, underwriters' associations and their services, an analysis of the new standard fire policy, a description of the modification of the contract by clauses and endorsements, a discussion of the older and newer systems of ratemaking, the importance and regulation of the fire insurance reserve and the procedure of settling losses.

Section Five, on marine insurance, attempts to present within a limited space the principal features of the business. Attention is concentrated on those phases which are of exceptional interest to the insured—the types of policies, the extent of protection which is afforded, endorsements and the settlement of various types of losses.

Section Six explains the principal features of title insurance and corporate bonding and also gives a description of two forms of insurance not heretofore adequately covered by textbooks—automobile insurance and credit insurance, both of which have experienced considerable change and development within recent years.

In all of these sections an effort has been made to eliminate details which are superfluous or tend to obscure the principles and methods involved and at the same time to sufficiently describe the customs and practices of the business. To this end the volume is provided with a large collection of policies and forms in common use which in some cases supplement as well as illustrate the text. In furnishing reports, forms and information regarding rates and practices insurance men and state officials have been uniformly kind and courteous and it is a pleasure to acknowledge the very great assistance derived therefrom.

R. R.
H. J. L.

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# Part I

# INSURANCE IN GENERAL

## Chapter I

# THE USES OF INSURANCE

**Insurance as a factor in business.**—The value of insurance is usually much underestimated. This is partly the result of adopting a very narrow view of the insurance business for, in appraising the value of any business enterprise, we must consider not only the plain and apparent benefits which result from its activities but also its more remote consequences. Upon careful analysis it will be seen (1) that insurance performs a large number of functions for the business man and the community which are usually accepted without notice or appreciation and (2) that the numerous forms of insurance have in substance very much the same objects in view. To illustrate the significance of these two facts and to show the important part played by modern insurance in business enterprise are the principal objects of this chapter. For convenience the various services of insurance have been grouped as far as possible and are described under ten headings.

**1. Insurance introduces security in business undertakings.**—A service which is common to all forms of insurance,—life insurance, property insurance, credit insurance, bonding, title insurance, etc.,—is to substitute for large and uncertain losses a small but certain payment. By this we mean that the business man enters into a contract to pay a relatively small premium at fixed intervals, in exchange for which the insurance company agrees to assume the risk of certain large losses which may or may not occur. For example, while an individual knows that fires are constantly destroying business properties and stocks of goods he cannot tell how soon his property will be thus visited, if ever. If he could foresee his fire losses with any accuracy he could make provision beforehand without the assistance of insurance, provided there were sufficient time; but since the event and its results are uncertain he has no assurance that his most earnest efforts to provide for the future may not be cut short by an untimely catastrophe. But what is most uncertain with regard to an individual may be closely cal-

culated for a group. A study of fire insurance statistics would show that on bakeries, for example, a certain percentage of loss through fire might be expected in a given period. If such statistics were more satisfactory in character it would be possible even to find the statistical results with regard to particular kinds of bakeries in particular buildings. How this might be accomplished is shown in the chapter on fire insurance rates. It is therefore possible to make provision on a mathematical basis for a group which is not possible for an individual. The element of certainty or assurance is a vital one in every business and to every individual, and insurance provides a way in which such certainty can be introduced where it did not previously exist.

Nor do other forms of insurance differ from fire insurance in this respect, except in degree. Any person who is familiar with the record of the past experience of life insurance companies can tell with the greatest ease that out of 100,000 persons at age twenty, 3,891 will die before they reach twenty-five. Nevertheless with regard to an individual we can predict nothing, and one who attempts to provide against death by saving may or may not be successful. In marine insurance we also find persons and companies who, relying upon their knowledge of conditions and the experience of the past, are willing for a small consideration to assume the risks incident to sending a vessel or a cargo across the sea. It is true that here the conditions affecting the risk are so many and so varied that the problem of calculating a correct premium is more complicated, but the principle involved is the same.

Similar illustrations are found in every field of insurance. No property owner is absolutely sure that his title is good and no one would be willing to make a single prediction about it inasmuch as his judgment, however good, might be wrong. But given a sufficiently large group of risks underwriters are willing to transform doubt into certainty by granting indemnity in return for a stipulated premium. No merchant knows when a given debtor's account may have to be written off as a "bad debt," nor how much he may lose on an individual debtor, but in many lines of business the average loss through bad debts is almost absolutely sure. When a combination of risks thus increases the certainty of the future it becomes possible for the manufacturer to remove his doubts by the purchase of a credit insurance policy. The law of most States makes a business responsible for compensation to injured employees, usually

specifying exactly the amount to which the individual employee is entitled; but even in the largest plants it is difficult to estimate the total amount which will have to be paid out in any given year. But by combining, for instance, all steel plants in the country we can arrive at a much more exact conclusion, and through compensation insurance can remove this element of chance from the employer's business. Probably most business men would admit that nothing is more uncertain than the law, and yet they assume a legal liability when they permit a salesman to enter their premises, when they hang a sign over the sidewalk, operate a factory with windows opening on the street, and perform many other acts without a thought of the element of risk thereby introduced. A public liability policy would make many of these uncertainties certainties.

So we might go on to illustrate the element of uncertainty in the operation of an automobile, in an operation performed by a physician, in the operation of an elevator, in the existence of a plate glass window, the operation of a steam boiler and the sending of a package by parcel post, in all of which the uncertainty, or at least a considerable part thereof, may be eliminated by the use of insurance. It is the failure fully to appreciate this principle that causes men so often to insure their property but to neglect their life insurance, to inform themselves of their liability under compensation acts, yet ignore their liability to the public. Enough has been said, however, to illustrate the possibilities in the removal of risk made available to the individual and the business man. If all uncertainty could be removed from business, profits would be sure; insurance removes many uncertainties and to that extent is profitable.

2. Insurance increases business efficiency.—The natural result of the elimination of risk and uncertainty is an increase in business efficiency. Every manufacturer knows that if it were possible for him to reduce the uncertainties of his business by one-half his efficiency as a business unit would be at least trebled. The price of goods is often regarded as an index to the efficiency of their production and distribution, and it is well known that the smaller the risk involved, the lower the price it is possible to charge. The most uncertain businesses are in the main the most inefficient ones; for the existence of the large element of doubt minimizes the importance of the many small factors which go to make up the sum total of efficiency. With a few great risks out of the way the busi-

ness man is free to devote his attention to those smaller perfections which give him an advantage over his competitors.

Suppose, for example, that a young man has accumulated a small capital and is offered an opportunity to invest this sum in an exporting business. He may be very confident of the success of this business and would be willing to risk his future in it without reserve. But he reflects upon the hazards incidental to ocean transportation and the dangers of fire and dishonesty. His investment represents an accumulation acquired by saving and hard labor, and when he considers the chances of fire, of shipwreck, of damage to the goods by water, etc., he becomes unwilling to take the risk unless insurance is introduced as a means of protection. With this assurance he is an efficient business man, without it he is a gambler harassed by doubt and hesitation.

Merchants would be unwilling to trust their goods upon the ocean if they were not protected by marine insurance and would be content to let foreign trade take care of itself, preferring to avoid the risks incidental to water transportation. Without insurance many employers would be afraid to entrust large sums of money and important duties to subordinates, and would be forced to give their own valuable time and attention to these affairs; but when protected by a bonding company's policy they know that most of the risk has been removed. Without some form of compensation insurance a small business would constantly worry along under the danger of being rendered insolvent by the claim of an injured workman. In many States this form of insurance is compulsory.

As further illustrations, let us take the case of a partnership, and the relations between employer and employee. It may seem a strange statement but it is nevertheless true, that life insurance has made the partnership a more attractive form of business enterprise. This is so because a partner may die and his heirs be disinclined to continue the business, asking instead for a division of the assets. Under such circumstances it is doubtful whether the remaining partners would be in a position to pay promptly the large sum necessary to purchase the interest of the deceased partner, and yet without this resource the heirs may make considerable trouble for the business. A life insurance policy with the proceeds payable to the business upon the death of the partner provides funds which are immediately available to satisfy his heirs. The partners may

thereby eliminate this worry from the large number of disquieting possibilities which they have to face.

In recent years business men have attempted to stabilize relations with employees by furnishing them with insurance, the employer paying all or a portion of the premium and thus making the employee feel that the concern is vitally interested in his welfare. That far-sighted business men have realized the value of this relief is evident from the purchase of group insurance policies involving millions of dollars of insurance, as illustrated by the Arlington Mills policy for eight million dollars, the policy of the Mid-West Refining Company for two million dollars, and policies of approximately one million dollars in the Westinghouse Companies, the Acadia Mills, the Monomac Spinning Company, the Trans-Continental Oil Company and many other important concerns.

In extending credit to customers every merchant hopes and expects that the buyer will pay in full; he depends upon his credit department to eliminate all the bad risks. Let us go a step further and assume that, since past experience shows him that a certain relatively small loss from this cause is normally to be expected, he adds something to the price of his goods to cover it. There still remains the uncertainty as to whether such addition is sufficient. The failure of a single large customer may transform the year's operations from success to failure, or unusual business conditions may increase the loss to unexpected size. But by means of a credit insurance policy he can go still further and eliminate most of this remaining risk, thereby increasing the efficiency of his credit department.

We find, therefore, that all forms of insurance possess in common the attribute of improving efficiency in business by removing doubt, worry and hesitation; an attribute which is manifested by the emancipation of the business man from fear of possible loss, the encouragement to enter into business promotions, the insurance of fidelity of employees, removal of a dangerous element in partnerships, stabilization of relations with employees and the diminution of losses through bad debts.

3. Insurance tends toward the equitable assessment of cost.—Another advantage of insurance as conducted by modern methods is the correct distribution of costs. Owing to the fact that insurance is based upon large numbers of risks it has become practically a necessity to have a large and well organized system for determining premium rates. It is essential to the

success of the insurance business that costs be assessed equitably among policy-holders. In life insurance it is necessary to employ the services of expert actuaries and mathematicians, not only to arrive at premium rates, but to calculate surrender values, reserves, policy loans, methods of converting policies, and to solve many other problems. In fire insurance, a vast number of factors have to be judged in arriving at the rate on a risk. As expressed by one writer: "He who assumes the risk of a flour mill, for example, should know more of its dangers than the miller himself * * * Drawing a greater number of contracts in a year than do many lawyers in a lifetime, and standing often face to face with the most perplexing questions of jurisprudence, it may be questioned if he should know less than does the attorney who has made it his profession. Seriously affected by every discovery of the chemist, and liable, at any moment, to have his chances of loss on whole classes of risks alarmingly increased by new chemical combinations which follow each other as rapidly as the changes of a kaleidoscope, he should know not less of them all than does the chemist himself. In short, there is scarcely a science, art, or manufacture with which he should not be more or less familiar, and if the successful conduct of any one business or calling requires a life-time of study and application, how much more should the business of insurance—which demands a knowledge more or less intimate of every other—require lifelong study and the closest and most constant observation." [1] In marine insurance, the problem becomes even more difficult, due to the multiplicity of considerations to be taken into account; and the involved procedure developed in the making of compensation insurance rates would be a puzzle to many a mathematician. Naturally such work can best be performed by persons who make this their business, and only by an organized system of insurance is a group of persons developed who specialize in this essential work. Indeed the theory and practice of insurance have been so extensively and intensively developed within recent years that no person can be thoroughly familiar with all phases of all branches of the business.

4. Insurance serves as a basis of credit.—Credit extension is a most important service in modern business life and is contributed to by practically all forms of insurance. The simplest

[1] F. C. Moore, "Fire Insurance and How to Build," New York, 1903, pp. 22 and 23.

illustration of the necessity of insurance is the example of a mortgage upon real estate. No mortgagee is willing to lend his money with property as security unless he knows that such property is protected from destruction by fire. No dealer cares to sell goods to a retailer on credit unless he has some assurance that the goods and the business of the retailer are protected from sudden disaster by fire. It is well known that the bulk of international financial transactions depend upon three documents, a draft, a bill of lading and a marine insurance certificate; and the last is not the least important of these. The bill of lading gives security to the draft and the marine insurance certificate gives security to the bill of lading. Business men are unable to obtain loans at the bank if their property is not protected against loss by fire and a grain dealer can not use his warehouse receipts as collateral for a loan unless the grain is protected against a similar risk.

While the part played by fire and marine insurance in the extension of credit is quite generally recognized, there are few who realize that logically other forms of insurance should occupy a similar position and be viewed by creditors as equally necessary. A bank in making a loan to a business investigates its assets but sometimes overlooks the greatest of all,—the life of the leading spirit in that business. His life may be of more importance to the success of that business than the final value of any other asset. Why, therefore, should not life insurance be considered as necessary to the extension of credit as fire insurance? Life insurance also serves its purpose in the purchase of a home on credit. If the wage earner of the family lives to pay the installments upon the purchase price, everything may finally work out satisfactorily; but what will be the situation if his death occurs before the obligation is discharged and his dependents are left to shoulder the burden of the remaining payments? They should be protected against this contingency by the existence of a life insurance policy to the extent of the debt, at least. One class of assets of a business is the accounts owing to it by other concerns. But we know that such accounts are of varying value, depending not only upon the character of the debtors but upon future business conditions. Before these debts are taken at their face value it is logical that they be guaranteed in some manner, as for instance being covered by a credit insurance policy. The possibility of the ruin of a business by the dishonesty of

trusted employees is worth consideration in passing upon it as a credit risk and it would seem discreet to require that the creditor be protected against this possibility by the existence of a bonding company's policy, which will minimize the possibility of such dishonesty and reimburse for any loss that may occur.

These forms of insurance, therefore, increase the credit standing of the business in question. If we agree that life insurance for an important person in the business is as essential as fire insurance on its property, why should not the health of the same individual be required to be insured, on the ground that it also is an essential part of the credit rating of the business?

The above illustrations are sufficient to show that a very narrow view has usually been taken of the value of insurance as a factor in the extension of credit; that in fact there is no good reason for not considering every form of insurance carried by a business concern or an individual as a part of credit rating. How illogical it is to consider an automobile as a business asset, when under certain conditions its risks outweigh its benefits, and yet refuse to recognize a compensation insurance policy, a burglary policy, a surety bond or an accident and health policy, all of which under all conditions protect against risks instead of creating them.

**5. The capitalization of earning power.**—We are all familiar with this idea in corporation finance. We consider the worth of a corporation as being its value as a going concern, and we estimate the intangible asset called good-will by separating its earnings from the earnings of tangible assets. We speak of the security market being a market for incomes, meaning that persons are willing to pay for a security their estimate of its present and future earning power. Many persons have applied this idea to personal finance also with the assistance of some form of insurance policy.

Let us assume that a machine produces a net income of $2,000 after the money necessary for its up-keep and allowance for interest have been deducted, and that the average lifetime of this machine is twenty-five years. It is easy to compute that its capital value under these circumstances is approximately $50,000, and that if it were lost this would measure approximately the detriment to the business owning it. By a similar method it is easy to calculate the monetary value of

the life of a bread-winner to his family. Why should not the earning power of a human life be represented by an insurance policy to its capitalized value, a policy which will reimburse his dependents for the loss of that earning power? Let us further assume that a machine such as described above must be repaired when damaged and that under these conditions, instead of bringing in a net income of $2,000 it costs the business $2,000 to restore it. The human machine is similar to this, when viewed in relation to his family which must support him when he is ill or crippled. Not only does he then lose his earning power but he becomes an expense to his family; and if totally disabled he is in a condition which has been described as "a living death." His family should be protected against the possibility of the human asset becoming a liability by accident and health insurance and by a total disability clause on the life insurance policy.

The position of a business firm in relation to a valuable employee is very much the same as the position of the family with respect to its principal support. The principle illustrated by the above paragraphs has been more and more recognized in recent years by progressive business men. There is, for instance, a policy of two million dollars issued on the life of the president of the Fisk Rubber Company and vice-president of the Willys-Overland Company, a large part of which is for the protection of the business. This is one of the more unusual cases, but hundreds of ordinary illustrations might be cited of policies of from $100,000 to $500,000 used for this purpose.

In the same sense the book accounts of a business may be regarded as assets from which a certain earning power is expected. Every loss from bad debts diminishes the net earnings of these book accounts and against the insolvency of debtors there is only one sure remedy,—the existence of a credit insurance policy. Part of the value of the title to a piece of real estate lies in its marketability, and this in turn is dependent upon the soundness of the title. The marketability of titles is today practically universally protected by title insurance policies. The same idea is applicable to any form of property. A fire insurance premium might be considered as capitalizing the value of a building, a plate-glass policy as capitalizing the value of a window, use and occupancy protection as capitalizing the value of a "going" business, a marine policy as capitalizing

the value of a cargo shipment. In each of these cases, of course, this statement is true only to the extent to which the particular policy protects, but if a policy covering all possible contingencies were issued on property the idea would be true in every respect.

6. **Insurance makes saving possible.**—Insurance must be regarded as a hedge—a word familiar alike in the sporting and commercial world. If a person who has entered into a contract for the future delivery of wheat protects himself by contracting with another for the future delivery of the same article he is said to have "hedged," because whatever he may lose on the first contract, he makes on the second. In a similar fashion, life insurance may be used as a hedge against the risks of saving. Many men decide to obtain protection by the practice of saving regardless of the fact that death may not give them time to accomplish their object. The following illustration will make this clear. Suppose of two thousand healthy men, each twenty-five years of age, and married, one thousand decide to save money and protect their wives by placing $100 in the bank at interest each year, and the other one thousand decide to invest an equal amount annually in life insurance. The following table shows the results:[2]

| | *Savings Group:* | | *Insured Group:* | |
|---|---|---|---|---|
| *End of* | *No. of Widows* | *Amt. received by each* | *No. of Widows* | *Amt. received by each* |
| 1st year..... | 8 | $104 | 8 | $5,000 |
| 5th year..... | 40 | 104— 564 | 40 | 5,000 |
| 10th year..... | 80 | 104—1249 | 80 | 5,000 |
| 20th year..... | 174 | 104—3096 | 174 | 5,000 |
| 28th year..... | 238 | 104—5197 | 238 | 5,000 |

It is apparent that, even though after the 27th year some financial advantage accrues from the savings plan, such advantage goes only to those who (1) are fortunate enough to live that long and (2) are possessed of sufficient will-power to continue saving unassisted.

Some business firms decide to carry their own insurance risk by the practice of self-insurance, which involves setting aside a certain sum each year in a fund to pay any losses incurred. The great and obvious risk involved here is no different in any essential respect from the risk run by the one thousand men who used the savings fund as protection. If a fire or a large

[2] These results are excluding any possible dividends received.

compensation payment or a disastrous damage suit comes too soon, it may find the self-insurance fund with insufficient accumulation to meet the consequences. Against such a contingency insurance provides an intelligent and common-sense hedge. Instead of immediately assuming all the risk of self-insurance it would be wiser for many business men to assume this risk gradually, combining one-tenth self-insurance with nine-tenths insurance the first year, one-fifth self-insurance with four-fifths insurance the second year, and so on until the object they have in mind is fully attained. Thus in a sense insurance may be regarded as prerequisite or essential to saving, in order to guard against uncertain results of the latter.

7. Insurance as an investment.—Some forms of insurance combine with the insurance feature an investment element. This is only incidental to the protection element and yet serves a useful purpose. In life insurance particularly, its importance has been emphasized. Under the level-premium plan, a man pays in the early years of the policy a premium more than sufficient to carry the risk and this saving goes to make up for the deficiency in the annual premium in the latter years of the policy when the mortality rate has greatly increased. The extra amounts collected in the early years are therefore in the nature of savings which earn interest. This saving element exists in some term policies, in all ordinary-life policies to some extent, to a greater extent in the limited-payment and is extended still further in the endowment policy, which purposely combines life insurance and saving. The sums so accumulated by the insurance company earn interest and experience has shown that insurance companies have earned a fairly large rate of interest for the remarkable safety of the investment. In the past twenty-five years it is said that no policy-holder has lost any of the savings he had in any large and well-established legal reserve life insurance company.

In other forms of insurance the saving feature is less prominent. By straining the analogy somewhat we may consider that the amounts put into a self-insurance fund or paid out as premiums are put aside into a fund for a "rainy day"—to take care of losses which are sure to occur to the group as a whole, although each individual member of the group hopes that he will not be the victim.[3]

[3] See also the fire insurance plan of the "Philadelphia Contributionship," Appendix XXIX.

Insurance companies have further developed this idea of thrift by making it applicable to the proceeds of policies. In order to prevent beneficiaries from squandering the proceeds of a life insurance policy, income policies have been invented, which provide for the payment of the proceeds in instalments. Likewise, the proceeds of the policy may be left with the company for safe keeping, earning meanwhile a reasonable rate of interest. Some companies have sold "gold bond" policies, the proceeds of the policy being a bond with fixed interest periods instead of cash. It should also be noted that the saving element in a life insurance policy has been made little different from the saving plan of a bank, inasmuch as the policy-holder may borrow at any time from the savings fund he has accumulated or may withdraw it entirely in the form of a surrender value.

8. Insurance promotes thrift.—In the illustration of the two thousand men, one thousand of whom made use of insurance, it was assumed that all of those who adopted the savings method possessed the determination to adhere to their plan and that none failed to put away $100 faithfully each year. In actual practice, however, we know that it is difficult to save, and what would appear to be a small assistance is often the difference between success and failure. Life insurance provides certain inducements to save. In the first place, each person receives a notice a short time in advance of the date when his annual premium is due, making it impossible for him to forget the payment and forming the habit of putting away a small sum at regular and determined intervals, an element which has always been insisted upon as essential to the development of thrift. This encouragement of saving undoubtedly results in many persons accumulating sums which they otherwise would never have. Money or time which would otherwise be wasted is utilized for the purpose of meeting these regular payments and this has been said by one writer to bear the same relation to thrift that the utilization of by-products does to manufacturing—much being saved that would otherwise be wasted. In a savings bank, furthermore, a depositor is usually allowed to withdraw his funds upon short notice at any time, so that a resolution to save may be broken without serious reflection. Under the life insurance contract no withdrawal is usually permitted during the first two years of the

contract, and sometimes even after this date a withdrawal charge is made.

**9. Insurance as a provision for old age.**—Another form of savings must be referred to here. In most cases saving consists of putting away small sums in order to accumulate a large fund, but the term may be equally well applied to the putting away of a large sum in order to insure the payment of a number of small sums in the future. Some persons who are in possession of considerable money have no dependents to protect and their only concern is to make sure that they will themselves be taken care of in their old age. The interest on the sum they possess may not be sufficient for this purpose, and as soon as they begin to draw upon the principal, they reduce their annual income, and have no guarantee that they may not be so unfortunate as to live too long. Such a person may, however, save his principal sum by investing it in the form of an annuity, which guarantees him an annual income as long as he may live. An illustration will make this plain. Suppose a man, age 65, has accumulated $8,000, the interest of which at 6 per cent will provide him with $480 annually, a sum which is insufficient to support him. By using a portion of the principal each year he can increase the sum annually available to $700 or $800, but he runs the danger that the principal will be exhausted and that he will then be left without any income. On the other hand, for $8,000 he may purchase an annuity which will pay him about $900 a year until his death, however late that may occur.

It may be that sometime in the future we will have in the United States a form of insurance which is common in Europe —old age insurance—in which the worker is *compelled,* if necessary, to lay aside a portion of his earnings in early years to support him in his old age.

**10. Community benefits of insurance.**—The uses so far enumerated have been individual in character but insurance also performs some services which, while not designed to benefit any particular individual, nevertheless benefit all, through their effect upon the community. Among these public services may be mentioned the following:

a. Fire insurance and other forms of property insurance encourage the individual to look forward to the future by urging him to provide, not merely for the present, but for events which may reasonably be anticipated. Adequate pro-

vision for the future distinguishes the civilized from the savage community and marks the difference between stability and instability in business. The principle of providing for future contingencies has long been recognized in corporation finance and its scope is only beginning to be realized in personal affairs and business policy outside of the field of finance. Life insurance goes further and impels a man to provide, not merely for his own lifetime, but even for the period after his death. It thereby greatly increases the sense of responsibility and strengthens family connections. Similarly, credit insurance is fundamentally an attempt to stabilize business conditions and title insurance performs the same function for property rights.

b. Life insurance, workmen's compensation insurance and accident and health insurance relieve the community of much of the expense which would otherwise be incurred for the care of dependents left by the improvident. They encourage persons not to depend upon the charity of the state, but rather upon their own efforts to prevent poverty and distress and thus strengthen character. So great a social factor has this been considered abroad that systems of social insurance have been built up, enforced by and in some instances supported by the State. Fires, defalcations, failures, explosions, tornadoes and other calamities have likewise often tended in the past to impoverish families which would have been relieved of the financial shock if adequate insurance had been maintained.

c. All forms of insurance, by lessening the number of persons who are rendered destitute through such happenings, tend to maintain the standard of living. They reduce the number of unfortunate examples of destitution and misery which operate to lower the ideals and standards of conduct of others who are brought in contact with them.

d. A well-organized system of insurance tends to distribute equitably the cost of accidental events which would otherwise be paid in a haphazard manner. For example, the cost of fire insurance is now reflected fairly accurately in rents; but in the absence of a system of insurance some tenants might pay excessive sums while others did not pay their fair share of the fire losses. Credit losses, instead of being cared for by a small and regular addition to the selling price, in the absence of insurance are met by an assessment depending on circumstances, naturally resulting in an addition sometimes deficient and sometimes excessive.

e. All forms of insurance, if properly conducted, tend to reduce the extent of the evils they are designed to alleviate. The strongest argument for the reduction of fire losses, for example, is the pecuniary argument that smaller losses will make possible smaller premiums. The cooperative effort, which is primarily intended to collect and disburse insurance funds, tends to be applied in time to the reduction of losses. Thus, fire insurance inspections, life insurance medical and nursing services, oversight by bonding companies of employees, inspection of automobiles and of factories, are expedients introduced to prevent fires, reduce the death rate, prevent sickness, eliminate theft and defalcation, prevent automobile accidents and reduce the number and severity of industrial accidents. These efforts were fostered and supported by insurance.

f. Insurance accumulates, from the small deposits of many persons, a large fund which may be invested and used in the development of American enterprise. In other words, vast funds are made available as capital which otherwise would never be brought together in one place. The reserves of life, fire, compensation and casualty insurance companies represent the contributions of millions, each contribution being insignificant in itself, but in total amounting to a sum equal to the national debt of the United States in 1918. This vast sum is distributed among the securities of enterprises of all kinds.

g. Insurance has enabled small business enterprises to compete with large corporations upon more equal terms. As previously remarked, the element of risk is a highly important one in any business. A large company can afford to take some risk. If one of its forty buildings burns, the loss is not so serious; should the only building of a small competitor be destroyed, all is lost. The same is true of many other kinds of assets. The small business cannot afford to take much risk. A large business in the absence of insurance is able to maintain a self-insurance fund, because its resources are great enough and its risks sufficiently diversified and distributed to make such a fund of some value, but to a small business this is a pure gamble. Insurance has therefore been of special benefit to the small manufacturer and merchant.

The several propositions contained in this chapter may then be summarized as follows:

(1) The various services rendered by insurance are usually very inadequately appreciated;

(2) There is a striking similarity in the benefits rendered by all forms of insurance;

(3) Insurance increases the security of business enterprises;

(4) Insurance tends to improve the efficiency of business;

(5) Insurance equitably distributes the costs of losses;

(6) Insurance is an important factor in the modern credit system;

(7) Insurance enables the capitalization of various assets, human and inanimate;

(8) Insurance is intimately connected with saving and in fact makes the latter practicable;

(9) Insurance provides a safe investment for surplus funds;

(10) Insurance encourages and promotes thrift;

(11) Insurance furnishes a method of providing for old age;

(12) Insurance is beneficial from the social as well as the individual standpoint.

## Chapter II

# THE FUNDAMENTAL PRINCIPLES OF INSURANCE

**Definition of insurance.**—Insurance may be defined as a social device whereby one person is enabled to make a contract with another, the second party agreeing to assume certain definite risks of the first party upon payment by the latter of a compensation called the premium. This agreement is subject to the general law of contract, the application of which is limited in many essential respects, however, by the peculiar nature of the contract and by well-understood customs and usages of the business.

**Essential requirements for insurance.**—In order that such a contract may operate equitably, produce the desired benefits and be practical from a business point of view, certain conditions are absolutely necessary. Briefly stated, these conditions are the following:

1. The insured must be subject to a real risk. This risk may be a loss of goods or benefits which he already possesses or of prospective benefits or profits. The threatened loss may be a loss of visible property or of such an intangible thing as a legal right of action; but it is important that the contract be based upon some actual possibility of loss and not upon the mere desire of the insured to bet against the happening of some event. The latter is a perversion of the real function of insurance. It is preferable that the risk be one which cannot be affected by the actions of the parties involved; i.e., that the insured cannot himself produce the event insured against or increase the probability of its happening. At least, he should have no incentive for so doing, as otherwise a great moral hazard is involved in the contract. But if this were strictly adhered to many forms of insurance would be prevented from adequately exercising their legitimate functions.

2. It has been found in practice that the risk to be insured must be important enough to warrant the existence of an insurance contract. Many policies of insurance exclude unimportant losses as costing more to insure than the value of the

protection given. Obviously to cover every small loss that might possibly occur would be to greatly increase the cost of protection at the expense of those who desire protection against really great hazards. Thus in marine insurance it is customary to exempt the insurer from liability for small losses; in compensation laws the injured workman does not recover for the first few days of disability, and in accident and health insurance various restrictions are introduced limiting the company's liability.

3. The cost of insurance must not be prohibitive. In order to be of any great benefit to a large portion of the business community the premium paid must be sufficiently small to be within the reach of nearly everyone. Otherwise the risks written will be confined to a small and select group of persons insufficient in number to allow the law of average to work. Likewise the expense of doing business, which is a factor in the size of the premium, must be kept within due proportions. We have seen many instances in the past where new methods of conducting the insurance business have been introduced by competition because the expense of existing methods was thought to be excessive. It is essential for insurance agents and brokers to remember that their income is derived in the last analysis from the premiums paid by the policy-holders and that consequently their existence must be justified be rendering some real service to the insured.

4. A large number of risks is necessary. As will be shown more fully later, it is necessary for an insurer to accept a considerable number of risks in order to operate on a safe basis. The natural tendency of the insured to select a company of some size is not misleading in the respect that mere size in the insurance business is productive of a real advantage up to a certain point. It will readily be recognized that an insurance plan involving only two persons would be little better than each individual taking care of his own risk personally, and that it is only by a combination of many risks that any substantial advantage is gained.

5. It is necessary that the extent of the hazard involved be capable of approximate mathematical calculation. It is, of course, not required that the calculation should be absolutely accurate. Many forms of insurance have operated for years on inadequate statistics but this has always resulted in dissatisfaction and dangerous underwriting practices. As stated in

the preceding chapter, one of the services of insurance should be the development of a scientific system of making rates, for any other method of doing business necessarily results in inequity between classes of risks, individual policy-holders and different sections of the country. It would be obviously unjust and impractical to charge a man of twenty-five the same life insurance premium as a man of fifty, or to charge the owner of a celluloid factory a lower premium than that of a retail stationery store. Only a system of rating which takes into account the probability of loss will produce equitable premiums for the various classes of risks. It might be said that common knowledge indicates some difference between kinds of risks, but even if this is granted one cannot, by common knowledge, arrive at the *degree* of difference between them.

**Insurable interest.** — One of the fundamental principles among those enumerated above is that the person insured must possess some real interest in the subject matter insured, a doctrine which has been spoken of as *the necessity of an insurable interest.* It is this insurable interest which makes a contract between the insurance company and the insured particularly proper. In all forms of insurance this principle has been recognized by the courts although, as we shall see later, in life insurance and marine insurance considerable departures from the principle have been permitted. While insurable interest is necessary to the contract, insurable interest without a contract confers no rights upon its possessor. A contract of insurance has been held, for example, to confer no rights upon third parties who happen for some reason to be interested in the subject matter involved. The illustration might be used of a workman who recovered damages for an industrial accident from his employer. The employer was insolvent and the workman found himself unable to collect on the judgment, whereupon he had recourse to a suit against a liability insurance company which had insured the employer against such an event. The court held, however, that a workman had no rights under a contract which was solely between the employer and the insurance company, even though his own injuries might be the subject upon which the contract depended. In the same way public liability insurance policies exist, not for the protection of the public who may be injured, but for the protection of the party responsible for the injury, who may be liable for damages. In marine insurance an insurance policy may be taken

out by a freight forwarder and after a loss a third person may appear and claim the proceeds of the policy, but it is necessary for the latter to show that he was the person for whom the insurance was intended at the time it was issued. Both an insurable interest and a contract must therefore be present.

**Principles of probability.**—The calculation of premiums for insurance of nearly every kind is based upon the application of the mathematical principles of probability to past experience. In life insurance these principles of probability are applied to past experience as represented by a mortality table; in fire insurance the principles are applied to past experience of fires tabulated according to occupancies, types of buildings, etc.; in liability and compensation insurance to past experience showing losses paid, etc. Premiums in insurance are usually expressed in the form of rates, i.e., by the amount of premium per unit of protection. Thus, in life insurance a rate is quoted per $1,000 of protection, in fire insurance per $100 of insurance, in liability and compensation insurance per $100 of payroll, in marine insurance usually per $100 of insurance, and in accident insurance per $1,000 of principal sum.

The most important of the principles of probability is that chance may be represented by a fraction, the numerator of which expresses the number of times the event happens and the denominator the number of times the event may possibly happen.[1] Thus let it be supposed that past experience shows that out of 10,000 houses, 50 are burned in the course of a year; the probability of a house being destroyed by fire is therefore 50/10,000. Suppose that the mortality table shows that of 66,797 persons alive at age 53, 1091 die within a year; the probability of death at age 53 is then 1091/66797. Suppose that in a given industry with an annual payroll of $2,000,000, the losses paid on compensation insurance policies are $6,000; the probability of loss in this industry is 30 cents per $100 of payroll. Applying the principles of probability to the experience of the past, we arrive at the probability that an event will occur in the future. To justify such a conclusion as this it is necessary (1) that a sufficiently large number of instances be considered to give a dependable average and (2)

[1] As expressed in Wentworth's "College Algebra": "The chance of an event happening is expressed by the fraction of which the numerator is the number of favorable ways and the denominator the whole number of ways favorable and unfavorable."

that the conditions of the future coincide with those of the past. Since the conditions of the future do not ordinarily coincide exactly with those of the past, some allowance must be made for possible changes, and therefore underwriting is not merely a mathematical science but involves an element of judgment.

**The law of average.**—The probability of an event happening is ordinarily spoken of as the *chance* that the event will happen. A distinction must be made between this chance or degree of probability and the degree of uncertainty connected with the event. The function of insurance is primarily the reduction of the uncertainty, and secondarily, the reduction of the probability. For example, if the degree of probability is zero, the event is certain not to happen and the degree of uncertainty is also zero. As the degree of probability increases to say, 1/10, the degree of uncertainty likewise increases. The degree of probability and the degree of uncertainty continue to increase together up to a certain point, but when the degree of probability reaches a certain height, i.e., as the chance of an event happening becomes more certain, the degree of uncertainty diminishes, until when the probability becomes a certainty, the degree of uncertainty is again zero. The degree of uncertainty is therefore entirely different from the degree of probability and it is the former to which we are now referring.

Let us suppose that out of 10,000 lives, on the average, 10 die every year. The probability is therefore 1/1000, or .001. Suppose, however, that from year to year, although the average is 10 deaths, the figures vary, showing as few as 8 deaths some years and other years as high as 12 deaths. The range is from 8 to 12, and the variation from the average may be said, roughly, to be 4. The degree of uncertainty may be crudely expressed relatively, then, by the fraction 4/10,000 or .0004. Suppose then that 1,000,000 lives are insured. The probability is .001 or 1,000 deaths. On a large number of lives, however, the variation from year to year will be relatively much less, probably only from 980 to 1020, a variation of 40 or .00004. This is a figure considerably smaller than .004. The degree of probability in our two illustrations remains the same, but the degree of uncertainty, experience shows, is considerably reduced when we deal in larger numbers. It is the function of insurance to combine a large number of risks and thus reduce the degree of uncertainty. We can predict the future much more accurately with regard to a group of risks than we can for

an individual risk, of which our future knowledge is practically zero. We can say that out of 1,000,000 persons, 400 will die within a year, but the fate of any individual is a mystery and must remain such. This idea is sometimes described as the "law of average."

**Consequences of the law of average in insurance.**—In insurance there are many important consequences of the law of average, some of which are:

1. Insurance is the exact opposite of gambling. In gambling two persons deliberately set about to create some hazard for pleasure or profit; they introduce the element of risk where it previously did not exist. Insurance, however, is designed as a hedge against risks which are already present, the object being to neutralize the existing risk. Thus a person who becomes the owner of property assumes the risk that it will burn, and takes out a policy of insurance to eliminate this risk or at least reduce its consequences. Every person living runs the risk of dying, every person in foreign trade assumes the risk that his goods will be lost at sea, every manufacturer runs the risk that some person will be injured on his premises and that he will be held responsible, every buyer of property runs the risk that his title will prove to be defective, every employer runs the risk that his employee will prove to be dishonest. Insurance is designed to reduce these existing risks instead of creating new ones.

2. Insurance is preeminently social in nature. It represents, in the highest degree, cooperation for mutual benefit. Various individuals who are all subject to similar risks combine to reduce the consequences of these risks, many thousands of persons paying premiums that the unfortunate few may be indemnified for the losses which will occur. This principle of mutuality is present in a stock company organized for profit as well as in a so-called mutual company, because in the last analysis losses are paid from premiums. The stockholders of the stock company are supposed to make a profit merely as a reward for directing and managing the cooperative scheme.

3. Insurance involves the accumulation of large funds to meet future contingencies. Thus we find that in life insurance reserves are built up to reduce future premiums, in fire insurance to meet future losses, in liability and compensation insurance to meet claims and suits which will appear in the future. Since these funds so accumulated are the property of thousands

of insured persons, the State has intervened, and, as a matter of public policy, has regulated their use. The investments of insurance companies are governed by state statutes designed to preserve such funds for the purpose for which they were intended.

4. Large catastrophes prevent the proper working of the law of average. A San Francisco fire is an exceptional happening which no one can foresee and to which past experience furnishes no guide. One method of attempting to reduce the consequences of such losses upon the financial standing of an insurance company is to secure a wide distribution of risks. Thus a company which insured risks in the city of San Francisco alone would have been made insolvent by its losses, the premiums collected being insufficient to meet the claims presented. But most of the fire insurance companies involved were writing insurance not only in San Francisco but over the entire world. A wide distribution of risks, furthermore, reduces the variation in losses from year to year and consequently renders the operation of the insurance business more certain and sure.

5. It is also essential to the law of average that the size of the individual risk shall not vary too greatly. We would not expect the losses of an insurance company to remain uniform if it insured 500,000 risks for $1 each and five risks for $100,000 each. A few losses on the latter risks would be sufficient to upset all the calculations that could be made. It is customary in nearly every form of insurance to limit the size of the risk which will be accepted. Thus in life insurance, $100,000 on any one life is a limit frequently used; in fire insurance, companies sometimes will not accept more than $20,000 in congested districts where a conflagration risk exists. Naturally the maximum risk which will be accepted depends to a large extent upon the size of the company concerned. As a result of this limitation of risk the practice of re-insurance has developed, whereby a company which has accepted a risk greater in size than it desires re-insures a portion in another company or companies.

6. The proper working of the law of average is also based upon a random selection of risks. In some forms of insurance, however, of which life insurance is a good example, poorer risks exclusively would present themselves for insurance and as a consequence the insurance company institutes a system of selection whereby sub-standard lives are rejected or at least are

charged a higher premium than the normal risk. In fire insurance very little selection is exercised but the same results are attained by making the rates proportionate to the hazard involved. The violation of this principle has been well illustrated by the experience of some fraternal societies whose members were admitted without medical examination and the same rate charged everyone without regard to age. Such fraternal but inequitable method cannot long continue because the society accumulates a large number of extremely poor risks.[2]

**Differences between life and other forms of insurance.**—We have seen that in a great many respects all forms of insurance are similar. It would be a mistake not to notice, however, some of the differences between life insurance and other forms of protectioon. The principal differences to be noted are the following:

1. The event which is contemplated in life insurance is a certain event, the only uncertainty being the time when the event will occur. A vessel insured under a marine policy may or may not be lost; a workman covered by a workman's compensation policy may or may not be injured; but death comes some time to all. The marine insurance company, the fire insurance company and the casualty company may or may not be called upon to pay a claim on a given risk, but every ordinary-life contract results in a claim. One writer has very properly described this by saying that the life insurance premium must provide two funds, one against the certainty of death at an advanced age and one against the possibility of premature death.

2. The classification of risks in life insurance is generally more simple than in other forms of insurance. All risks are first divided into two great classes—those which are insurable and those which are not. Those risks which are insurable are then sub-divided into age groups. In some companies, where persons of impaired health are accepted, each age group is again sub-divided into standard and sub-standard risks. In other forms of insurance, however, there is usually a multiplicity of classifications. Thus in fire insurance every building differs from others in some particular and, aside from dwelling and churches, these differences are so great that schedules are required to appraise risks. In marine insurance a hundred different factors contribute to make up the hazard on a given

[2] See Appendix XIV.

risk, such as the voyage, the season of the year, the type of vessel, etc. In accident and health insurance a classification based upon occupations is used and in compensation insurance risks are rated according to the type of industry.

3. In most forms of insurance the contract is for a term of one year and often is cancelable by either party before this term has expired. The life insurance contract, on the other hand, while it may be canceled by the insured, cannot be canceled by the company, and therefore is usually a long term contract. Furthermore, a company cannot change the premium during the course of this long period.

4. The principle of indemnity is more strictly adhered to in property insurance than in life insurance. Ordinarily a property owner may not recover more than the actual cash value of the property destroyed, while a life may be insured for any sum within reason. This question will be further discussed later in connection with insurable interest, where it will be shown, however, that the principle of indemnity in property insurance, emphasized by many text writers, is only relatively recognized.

## Chapter III

# TYPES OF INSURANCE ORGANIZATIONS

**Classification of insurance organizations.**—In all forms of insurance the insured is offered his choice of a number of different organizations for the purpose of insuring his risk. These organizations may be broadly classified into six groups; (1) self-insurance; (2) stock companies; (3) mutual associations; (4) reciprocal underwriters or inter-insurers; (5) Lloyds; (6) government or state agencies. To consider the advantages and disadvantages of each type of organization separately for every form of insurance would be a tremendous as well as an uninteresting task, inasmuch as the same ground would have to be covered many times. Each of these types has certain characteristics, whether it be writing life, casualty or property insurance, and from these characteristics its advantages and disadvantages naturally follow. We shall therefore devote this chapter to a general discussion of these various organizations, irrespective of the type of insurance business in which they are engaged, merely pointing out important qualifications relating to particular businesses.

**1. Self-insurance.**—Self-insurance is the endeavor of one who is subject to a risk to lay aside periodically sums which in time will provide a fund for reimbursing him for any loss which may occur. In the absence of insurance proper this is the only method available. Its advantages and defects are almost self-evident. It is apparent that if the insured himself operates the insurance fund he has it entirely within his own control at all times, can regulate the amount spent for expenses and, finally, any reduction in the risk involved is a direct saving to him. Thus if a person attempts to provide a fund against his own death he is obliged to furnish only the net amount required. No commission is paid to an agent for writing the insurance; no fees are paid to the State for the privilege of doing business; no salaries are paid to officials for managing the fund. If the insured regulates his habits and thereby increases his lifetime by five years the benefit accrues directly

to him. These facts would be equally true of any type of risk. But to provide a fund to take care of losses takes time. Suppose that he lays aside $1,000 per year and has a loss of $10,000 the second year. It is apparent that this is not insurance in the real sense of the word.

Such a plan may be attempted, of course, under widely varying conditions. The illustration of life insurance furnishes an extreme case of a field in which self-insurance is entirely inapplicable. Here, as we have previously seen, the person whose life is at risk has no assurance that the fund he accumulates will be sufficient, by the time the loss occurs, to cover that loss. He has no distribution of risks and consequently no law of average to rely upon. This is not self-insurance; it is gambling with death. On the other hand, let us suppose that a shipping company possesses fifty vessels ranging from $40,000 to $80,000 in value, all engaged in different trades. Let us suppose that the corporation has figured that $50,000 is the correct amount to be annually set aside in the insurance fund. In this case the self-insurance plan can be operated with a greater prospect of success. It is hardly likely that many of these vessels will be lost in any one year, and should the losses or repair bills of one year be extremely high, it is probable that the following years will be low enough to counter-balance this exceptionally poor luck. There are two elements here present which were not present in the life insurance illustration; (1) a number of risks are covered instead of one, and (2) the risks are distributed and not subject to identical hazards.[1]

Between these two extremes are varying degrees of safety in the self-insurance plan. Where the two elements described above are present the disadvantages of the self-insurance plan are considerably reduced. Where these elements are to a large degree lacking it would be much better for the business man to at least supplement his self-insurance plan for a time with

[1] Compare, for example, the variations in fire losses in these two cases:

| | *Penna. R. R. Co.* | *City of Philadelphia* |
|---|---|---|
| 1908 | $10,583 | $ 2,469 |
| 1909 | 20,115 | ..... |
| 1910 | 18,808 | 5,313 |
| 1911 | 19,722 | 47,434 |
| 1912 | 20,343 | 10,939 |
| 1913 | 47,298 | 2,043 |
| 1914 | 18,468 | 8,865 |

some other form of protection; later, if the self-insurance plan is successful he may gradually reduce the other forms of insurance he carries. In attempting to carry his own liability or compensation insurance he must bear in mind also that the cost is likely to increase, inasmuch as claims continue to come in long after the accidents have occurred. States usually permit self-insurance of the compensation risk only where the employer can satisfy the authorities that he is financially able to carry the risk.

2. Mutuals.—The self-insurance plan is plainly inadvisable, due to the risk involved, for the small owner who possesses only one or a few properties. Therefore a mutual plan has been devised whereby small owners are enabled to insure themselves by combining their risks. The various individuals proceed to do jointly, under this plan, what would be impossible individually. We might take the law of one State as an illustration of the manner in which a mutual fire insurance company may be organized. At the time of organization a guarantee capital of not less than $25,000 must be provided by issuing shares which shall receive dividends of not more than 7 per cent annually. This guarantee capital is intended only as security for the payment of losses until the mutual is fairly started in business and is applied to losses only after its other assets have been exhausted. When the surplus of the mutual amounts to 2 per cent. of the total insurance in force the guarantee capital shall be retired and such capital may be retired by vote of the policy-holders and the consent of the insurance commissioner when the net assets of the company over and above its liabilities and reserve are for two years last preceding its last annual statement equal to 25 per cent. of the guarantee capital.[2]

Under this plan every member of the mutual organization becomes an insurer and an insured. Every member makes himself liable for his share of the losses which may occur. It may happen that the premiums collected are in excess of the amount needed to pay losses, in which case the excess is returned to the policy-holder as a "dividend"—this term being a misnomer, inasmuch as the return is really not profits but saving. States have sometimes mistakenly decided to tax such dividends as if they were similar to the profits made by a commercial under-

[2] See Appendix CI., for balance sheet and statement of a marine insurance mutual. See also Appendix XXIX and page 96.

taking. If, on the other hand, the amounts collected are insufficient to pay the losses, the members of the mutual organization may be called upon to pay an assessment. Thus the law referred to above provides that mutuals shall collect the full premium in cash or notes payable, but the contingent liability of each member shall be not less than an amount equal to the cash premium written in the policy. The policy-holder is liable for all losses incurred while he is a member of the organization.

It follows from what has been said above that the amount for which the member of the mutual organization is liable is indefinite. The premium which he originally pays may or may not be sufficient to cover the losses which subsequently occur. Some of what he has paid may be returned to him or he may be called upon to pay more. It is apparent then, that the mutual organization may follow either of two policies. It may collect in advance a sum more than sufficient to cover the risk and return the balance, or it may collect an insufficient amount with the idea that it will later collect anything additional which may be required. The former plan has usually been successful; the latter usually a failure. This, of course, is a general statement and not intended as a reflection on or a recommendation of any particular organization following either plan.

We can briefly summarize the remaining features of the mutual by stating the advantages and disadvantages claimed for the plan. The advantages are:

a. Where no commissions or very small ones are paid to agents, mutuals claim to be able to do business at a smaller cost than other organizations. (This does not apply to life insurance.)

b. Any profits or savings which are made go to the policy-holders and not to the stockholders.

c. The mutual is theoretically under the control of the policy-holders.

d. The mutual can exercise a more careful selection of risks. (Inapplicable to life insurance.)

e. The mutual is interested in the reduction of losses.

f. Many mutuals have operated without finding it necessary to call for assessments.

g. The policy-holders will naturally look after their own interests very carefully.

The disadvantages which the mutual is said to be under are as follows:

a. If small, the mutual runs the danger of being unable to pay losses in case of great disaster.

b. If working in a large territory, the advantage of selection of risks and of careful oversight is partially lost.

c. No second party, such as the stockholder, intervenes between the policy-holder and possible loss.

d. The contract is indefinite, since the policy-holder may be called upon to pay further premiums.

e. The expenses of agents are justified by the service they render and these services are not fully rendered by mutuals.

f. The control of a mutual is in reality no more in the hands of the average policy-holder than is the stock company control.

g. The mutual is no better managed than the stock company because the stockholders of the latter are very careful about the management, since their dividends depend upon it.

In life insurance mutual companies have gradually attained a position of preeminence; at the present time their number and the amount of business written exceeds that of the stock companies. With the exception of the fact that policy-holders in a mutual company receive a participating policy, there is little difference between the mutual and the stock life insurance company. Even this difference almost disappears when the dividends of the life insurance company stockholders are limited to a definite figure, such as 6 per cent., and the stock company issues only participating policies. In compensation insurance, likewise, the mutual companies have gradually obtained a great share of the business, although in most States a larger amount is still written by stock companies. In casualty insurance the mutual is little known, and in marine insurance there is only one important mutual in the United States. In fire insurance, "factory mutuals" and mutuals formed in particular trades have been successful and have come to occupy a well-recognized position in the business.

3. Reciprocals.—The reciprocal organization is a development of the mutual idea. Here the various policy-holders are, as in the mutual, both insured and insurers.[3] The active head of the organization, however, is an attorney-in-fact who has been given authority to conduct the affairs of the organization through powers of attorney conferred upon him by the various

[3] For statement of a reciprocal see Appendix LX.

members. The entire management is subject to his control with only such limitations as are provided for by the terms of the organization and the written powers of attorney.[4]

The advantages of this form of organization most frequently referred to are the following:

a. The elimination of expense through the conduct of the business at cost, with the exception of any amount which may be paid the attorney for his services. The amount which the attorney is to receive and the expenses are usually limited in some manner.

b. The elimination of profit, inasmuch as the excess which is collected is refunded to the policy-holder.

c. The direct interest which each member has in the success of the organization.

d. Some provisions usually exist for preventing large losses through conflagration, such as a re-insurance arrangement with another insurance organization.

e. Elimination of the cost of the constant struggle to obtain new business in the form of commissions to agents.

f. Assessments are usually limited. Whether such limitation is legal or not is hard to say.

Such organizations are criticised on the following grounds:

a. The fact that the cost of a policy is indefinite, the members being liable for assessment.

b. The immense control which rests in the hands of the attorney-in-fact, whose authority is only recalled by the members revoking their powers of attorney.

c. The large sums which have been made by attorneys who have operated such plans for their personal profit alone.

d. The failures of some reciprocals, due to inability to pay losses or collect assessments.

Reciprocals are quite common in the fields of fire insurance and automobile insurance.[5] The method has been very little applied in life, accident, health, compensation or marine insurance.

4. Stock companies.—A stock company is organized for profit, the stockholders being entitled to any gains that may result from the operation of the business and responsible for any losses which may be incurred. The capital is provided by the sale of shares of stock and the law requires a certain min-

[4] For power of attorney used see Appendix LVIII.

[5] For policy see Appendix LIX.

imum paid-in capital, which must be maintained unimpaired. Usually a stock company possesses also a more or less substantial surplus as an additional guarantee to the policy-holders.[6] The stockholders adopt by-laws and obtain a charter from the State authorities, after which officers and directors are elected. The advantages claimed for the stock company are:

a. A good business organization which operates efficiently.

b. Expenses maintained at a low figure because the stockholders' self-interest requires this.

c. Better service than is afforded by mutuals and reciprocals.

d. A definite contract of insurance with the premium absolutely fixed in advance.

e. A capital and surplus as a guarantee and protection to policy-holders.

f. Usually a good distribution of risks and consequently better working of the law of average.

On the other hand its disadvantages are claimed to be:

a. A high expense rate due to the impersonal character of the management and the commissions paid to agents.

b. No better service than is rendered by other organizations.

c. Control of the company is in the hands of the stockholders and not the policy-holders.

d. Experience has shown that mutuals, etc., have been able to operate safely at lower rates.

e. The distribution of risk is no more satisfactory than that of a large mutual or other organization.

The stock company is found in all fields of insurance. Its principal advantages are the definite contract which it is able to offer and the capital and surplus which serve as a guarantee to the policy-holder for the payment of possible losses. The competition in the insurance business is keen and the rate of failure among stock companies, as well as others, has been very high.

5. Lloyds associations.—The most prominent association of this type is Lloyds of London, which has served as a model for similar organizations. The Lloyds Association is an association of individual underwriters, each of whom becomes personally liable for the amount of insurance for which he subscribes. It is therefore insurance written by individuals as contrasted with insurance written by companies or associations. One individual is not responsible for the ful-

[6] For statement of a stock fire insurance company see p. 247.

fillment of the obligation of others. London Lloyds is an extremely strong organization that has a long and satisfactory history, for the membership is very carefully selected and deposits are required for the security of the policy-holders. The necessity of upholding its past reputation compels this association to see to the prompt payment of its members' obligations. Unfortunately, some organizations bearing the name of Lloyds were not operated upon the same basis and have brought the name into some disrepute in this country, although a number of successful organizations have been in existence for some time.

The advantages of this form of organization are:

a. Their business is usually limited to some specific line where careful selection of risks is possible.

b. Many persons who are insured are also underwriters, although this is not necessarily true.

c. Individuals of large financial resources are often underwriters on policies, with unlimited liability.

d. By operation within a restricted territory, expenses are considerably reduced.

e. Agents' commissions are sometimes dispensed with.

The criticisms of such associations have been:

a. The security of the organization depends entirely upon the individuals who compose it.

b. Some organizations allow members to limit their liability, so that a number of good underwriters are found to be liable only to a very limited degree.

c. Such organizations have been frequently used by dishonest persons as a source of personal profit.

d. Their operations are very difficult of government regulation by reason of the individual nature of the contract.

e. The resources of the underwriters are sometimes insufficient for the amount of risk undertaken.

Such associations are unknown in life, accident, health and compensation insurance, but common in fire and marine insurance. London Lloyds, however, accepts risks of every class, even to contracts which are practically gambles, such as the insurance of losses through the state of the weather, the fall of kings and a state of war.

6. State insurance.—By State insurance we understand an insurance enterprise operated by the State or nation, the government assuming liability for the payment of the losses. Such

plans are not numerous in the United States, although government insurance in Europe is quite common. The most successful form of State insurance in the United States has been the "State fund" organized for the insurance of the compensation risk.[7] These are more fully discussed in the chapter on liability and compensation insurance. The State usually furnishes a fund with which to begin business, which fund assumes practically the form of a mutual managed by the State. The premiums collected are usually slightly less than the premiums of the stock companies and the balance remaining after the payment of losses is returned to the policy-holders. Some State funds have been very successful, others only moderately so, while still others have been criticised as inefficient, wasteful and unsatisfactory. Such State funds may be divided into two classes:

1. Those which are made monopolies, no other form of compensation insurance being permissible.

2. Those which are competitive, existing side by side with the stock companies and private mutuals.

One State in this country has attempted to operate life and fire insurance plans, but thus far none of these attempts can be considered a great success.[8] The principal obstacles to the plan seem to be: (1) the inability to secure a sufficient volume of business and (2) the political character of the management. The natural results of these two factors are a high expense rate, a small volume of business and insufficient assets to meet losses. National government insurance of marine risks was very extensively adopted during the war and served to supplement the efforts of private companies to supply the large amount of insurance then demanded. In the United States this form of insurance was very helpful in meeting the emergency then existing but afterward was abandoned. It served the purpose of insuring American and Allied vessels and cargoes against the ordinary marine perils and against the war risk. Likewise the government maintained a fund for the self-insurance of its own vessels.

When the United States became actively engaged in the World War in 1917, it was soon realized that some provision should be made for insuring the lives of soldiers and sailors. At the same time it was evident that the rates which old line

[7] See Appendix XXVIII for a statement of operations of such a State fund.

[8] See, for example, the State life insurance fund of Wisconsin.

companies would have to charge for so dangerous an occupation were prohibitively high. Congress therefore decided that the Government should bear the excess burden and on October 6, 1917, passed the War Risk Insurance Act which, in addition to providing for family allowances and allotments, and compensation for death or disability, granted benefits in the form of voluntary insurance. In order to administer the affairs of such an undertaking, a separate division was established in the Treasury Department known as the Bureau of War Risk Insurance, which was placed under the supervision of a Director, subject to the general supervision of the Secretary of the Treasury.

None but those actively engaged in the service of the Army or Navy was eligible to obtain this insurance, which was granted upon application to the Bureau and without medical examination within 120 days of entrance to the service (or before April 6th, 1917) and before discharge or resignation. The applications were handled through the Army and Navy Insurance and Allotment Officers designated in the Quartermaster and Paymaster Corps respectively.

The type of insurance was a one-year renewable term policy of the increasing step-rate variety, convertible into a permanent form within five years after the signing of the proclamation of peace. The amount obtainable was a multiple of $500 and not less than $1,000 nor more than $10,000, and the rates charged were the net rates of the American Experience Table on a 3½ per cent. basis, reduced to a monthly premium. The coverage was for death or total and permanent disability, and the proceeds in event of loss were payable at the rate of $5.75 each month per $1,000 of insurance in force. The total insurance written on this plan reached approximately 38 billions of dollars. The premiums collected during the war amounted to 300 millions, and the losses to over one billion, which means that the United States bears a loss of over 700 millions, payable from other revenue.

In regard to the conversion privilege and in pursuance of Section 404 of the Act, regulations have been issued specifying the types of insurance into which the temporary or war insurance may be converted. Thus far, six kinds of permanent policies have been issued:

1. Ordinary-Life.
2. Twenty-payment Life.

3. Thirty-payment Life.
4. Twenty-year Endowment.
5. Thirty-year Endowment.
6. Endowment maturing at age 62.

The rates on these are calculated on the same basis as the temporary insurance except that allowance is made for annual, semi-annual and quarterly premiums. In this connection it should be explained that under the original Act no provision was made for the separation of this converted insurance from the temporary, nor was any settlement made possible except by monthly installments. An amendment to the Act was passed December 24, 1919, and among other liberal provisions it provides for settlement by means of a lump sum or other optional methods; it extends the class of possible beneficiaries; and it authorizes a separate life insurance fund in the United States Treasury for the converted insurance.

These changes, added to the fact that the insurance is participating, that all overhead and administrative expenses are borne by direct government appropriation and that it includes the most liberal total and permanent disability clause ever placed in a policy, make it most attractive. However, the insurance was not "sold" originally and as a result the lapses have been enormous, only the more intelligent having retained their insurance. Even the liberal reinstatement provisions promulgated by the Bureau have been only partially successful in preventing lapses. The early administration of the Act was faulty in the extreme, and the greatest efforts are now required to correct the confusion and abuses caused thereby.[9]

[9] For a statement of operations of the War Risk Bureau, see Appendix XV.

## Chapter IV

# ORGANIZATION OF THE INSURANCE BUSINESS

**Organization.**—A discussion of the organization of the insurance business must be divided into two parts. We must distinguish in the first place between personal insurance and property insurance, where the systems of doing business are sufficiently different to warrant such distinction; and secondly, between the internal organization of a company and the voluntary agreements entered into by companies and agents intended to foster common action.

**Personal Insurance.**—The following discussion is based upon the organization of a life insurance company, but many of the statements made are equally applicable to the transaction of the accident, health and compensation insurance business. The best introduction to this subject is a presentation of the excellent outline of Mr. J. B. Lunger.[1]

OFFICIALS:

- A. Deliberative bodies.....
  - Board of Directors
  - Committees of the Board
- B. Executive officials.....
  - President
  - Vice-Presidents
  - Treasurer
- C. Administrative officials..
  - Comptroller
  - Secretary
  - Superintendent of Agents
- D. Advisory officials.....
  - Actuary
  - Medical Director
  - Counsel

Directed by the above officials we find the following office departments:

I. Agency
II. Financial
III. Actuarial
IV. Medical
V. Legal
VI. Bookkeeping
VII. Auditing
VIII. Claims
IX. Real Estate Loans
X. Policy-Writing

[1] "*Yale Insurance Lectures*," Volume 1, pp. 112-125.

XI. Policy Loans
XII. Inspection
XIII. Policyholders' Bureau
XIV. Editorial and Advertising
XV. Supply
XVI. Mail
XVII. Filing

To co-ordinate the work of departments, committees of officials meet as follows:

I. Committee on Agency Methods
II. Committee on Review of Applications
III. Committee on Clerical Efficiency
IV. Committee on Claims
V. Committee on Office Methods and Systems

It is hardly within the scope of this volume to attempt a consideration of the various duties and classifications of the different offices and departments, as we would then be entering the field of corporate management. We therefore pass to a consideration of that portion of the organization with which the policy-holder comes in more direct contact, namely the field force.

**The Field Force.**—An agency system is apparently an absolute necessity in life insurance, since one of the strongest companies, after giving up the solicitation of business, saw its policies in force dwindle to almost nothing. This part of the organization is highly important for at least two reasons. (1) It keeps the organization alive as a going concern, and (2) it is the point of contact between the company and the policy-holder.

**General Agents and Managers.**—The methods of handling agents may be classified in two groups (1) the general agency system, and (2) the branch office system.

1. *The General Agency System.*—This method consists in dividing the country into territories, to each of which is assigned a general agent who has control over the definite field for which he is responsible. If he produces results he may regard the district as peculiarly his. On all business which may be written within that territory he is entitled to a certain initial commission and renewal commisisons on subsequent premiums paid. The general agent agrees to promote the company's interests; to use his best efforts in obtaining and maintaining a satisfactory agency force; to pay his own expenses and to employ the required sub-agents. In some

instances the general agent is a large producer of business himself and in others he is principally an executive who employs and directs others who actually write the business. In any event it will be noticed that the general agent works to a large degree on his own account and pays his own expenses. His remuneration depends upon his success.

2. *The Branch Office System.*—When organized according to this method the company establishes districts throughout the country and places them in charge of branch office managers. A branch office is under the manager's direction, but his powers are more limited than those of a general agent, inasmuch as he is directly under the control of the home office, while the general agent usually manages his territory in any manner he pleases as long as satisfactory results are produced. The manager secures agents and directs their work but the contracts made with such agents are subject to the approval of the home office. The remuneration of the manager consists of (1) a definite salary, and (2) certain bonuses for increases in the volume of business. It will be noticed that the manager is thus merely an extension of the office itself.

In conjunction with either of the above plans we may have the appointment of agents directly by the home office, who are not subject to the supervision of the general agents or managers and whose territory may be more or less restricted. There is also in life insurance the brokerage system, whereby the seller of life insurance effects an agreement for remuneration with the general agents of several companies; but under these circumstances he is really an agent of several companies rather than a broker in the sense that this term is usually understood.

Each of the methods referred to above has certain advantages and disadvantages; both have been successfully applied.

**Agents.**—Under either the agency system or the branch office system the bulk of the business is obtained, not by general agents or managers, but by sub-agents employed by them. Under the agency system these sub-agents are really employed by the general agent, although they may be legally considered as agents of the company. The general agent enters into a contract with them whereby they agree to certain terms of employment and receive in return an initial commission and renewal commissions on subsequent premiums. Commissions are usually in the form of percentages of the premium paid by the insured. Thus the general agent may pay over to the

sub-agents his whole initial commissions and a certain proportion of the renewal commissions he receives from the company. Or the general agent may pay to the sub-agent a proportion of both his initial commission and subsequent commissions.[2] Under the branch office system, of course, the agent receives his commissions directly from the company. Two methods of paying commissions have been utilized. The first system is to pay the agent from 25 to 50 per cent of the initial premium and thereafter 5 per cent on subsequent premiums for a term of say, eight years. Another system is to pay the agent a considerably higher percentage of the initial premium and to dispense with renewal commissions.

**Property insurance.**—The system described below is that of fire insurance, but the main outline is generally true of marine insurance and casualty insurance. The arrangements for corporate bonding, title insurance and credit insurance vary somewhat.

**General agents.**—If the extent of business warrants it, the company may divide the country into districts, placing each in charge of a general agent. The general agent in this case is only an extension of the home office, making contracts with agents and subject to more or less strict supervision by the home office.

**Special agents.**—The special agent is a direct representative of the company and, as his name indicates, is employed for particular duties. He is the direct connection between the home office and the agent, or between the general agent and the local agent. It is his business to travel about the country examining the work done by the local agencies, offering suggestions as to how the business may be improved, contributing his services in connection with rating problems, and settling important losses. The latter work is more generally performed, however, by a special agent known as an adjuster. The special agent is supposed to be both an aid to the local agent and a check upon his work.

**Local agents.**—The local agent is the representative of the company who directly writes the business. In general, his acts and his knowledge are considered the acts and knowledge of the company, although certain limitations are placed upon his authority. The company depends to a considerable extent upon his judgment in accepting a risk. Unlike life insurance agents,

[2] See the agent's contract in appendix V.

he has policies in his possession which go into force when countersigned by him. Unlike life insurance agents, also, he usually has a certain amount of control over the business he writes and his clientele is much more his personal property. He forwards to the company copies of the policies written accompanied by a daily report,[3] and his financial transactions are recorded upon a monthly report[4] which is forwarded to the company and which forms the principal basis for the bookkeeping of the latter. The remuneration of the agent is a commission in the form of a percentage of the premium. The agent usually represents, not one, but several companies. He sometimes has an exclusive territory but in large cities is usually required to compete with others who are writing business in the same locality.[5] The commission systems employed are the following:

1. Flat commissions, where the agent receives the same percentage of commission on all kinds of business, say 25 per cent.

2. Flat and contingent commissions, where the agent receives a flat minimum percentage on premiums reported from month to month, and an additional payment at the end of the year if the underwriting result on his business is profitable. For instance, he may receive a 15 per cent. flat commission and 10 per cent. extra on the difference between the premiums and the losses and expenses.

3. Graded commissions, where the percentage of the premium received by the agents depends upon the class of business written. Thus, he may receive 25 per cent. on dwellings, public buildings and their contents, etc.; 20 per cent. on churches, schools, colleges and their contents; 20 per cent. on brick and stone mercantile buildings and 15 per cent. on the contents of brick or stone mercantile buildings.

**Brokers.**—The broker, as contrasted with the agent, is the agent of the insured and not of the company, in spite of the fact that he directly derives his income from the latter. The insured is therefore generally responsible for the acts of the broker, while the company is usually responsible for the acts of an agent. The broker solicits the insurance from the property owners and sells the same to the company either directly

[3] See appendix XLVII.
[4] See appendix XLVIII.
[5] See appendix XLIX.

or through an agent. Where conditions are more complex, the services of the broker become more valuable. Thus in large cities he furnishes the insured with the advice and service necessary under these conditions, adapting the policy to his needs, seeing that the necessary insurance is maintained, obtaining the proper kind of policy with the necessary endorsements, and advising him in case of loss.

**Associations.**[6]—In all forms of insurance it has been found desirable to obtain concerted action by means of associations. In life insurance, such associations have been largely confined to improving the moral tone of the business, regulating the conduct of agents and affording a means whereby agents can protect their interests by common action. In other forms of insurance, however, such associations have assumed very broad and important powers. The fire insurance business furnishes the best illustration of the extent to which such associations influence the conduct of the business.

**Fire underwriters' associations.**[7]—The following outline will give a general idea of the different kinds of associations and the scope of their work:

CLASSIFICATION OF ASSOCIATIONS

According to:—

1. Jurisdiction
   - National
   - Sectional
   - Local
     - Urban
     - Suburban
2. Functions
   - Technical and educational. Regulation of brokers and agents. Rate-making
3. Membership
   - Occupation of members
     - Company representatives
     - Special agents
     - Agents and brokers
   - Classification of members
     - No distinction between members
     - Classified membership
       1. Without qualification of voting power
       2. With qualification of voting power
   - Requirements
     - Adherence to agreed commissions to agents
     - Adherence to stated scale of brokers' compensation

[6] A considerable portion of the following is adapted, with the kind permission of the publications concerned, from the author's monograph on "Fire Underwriters' Associations," *Chronicle Co.*, N.Y.; his article on "Fire Insurance Rates" in the *Quarterly Journal of Economics*, August, 1916; and his article on "Ratemaking Organizations in Fire Insurance," *Annals of the American Academy*, March, 1917.

[7] Adapted, with permission, from Robert Riegel, "Fire Underwriters Associations in the United States." *The Chronicle Co., Ltd.*, New York, 1916.

These cooperative bodies at the present time may be divided into three classes: (1) the very numerous local associations, which govern rates, commissions and brokerage charges; (2) the sectional bodies which restrict commissions and to some extent supervise rates; and (3) the national associations, which are now rather indirectly concerned with rates and whose principal services are educational and technical in character. If we omit the minor detail of extent of jurisdiction, we may make a two-fold classification; (1) educational and technical associations and (2) commission-regulating, rate-making bodies. Among the latter are some composed of company representatives, some of special agents, some of local agents and brokers. All, however, constitute merely an effort to do cooperatively what had previously been accomplished individually.[8]

**Example of a national association.**—The most important national association is the National Board of Fire Underwriters, organized in 1866, membership in which is open, by election at a meeting or by action of its Executive Committee, to any stock fire insurance company doing business in the United States. There are now about one hundred and sixty member companies. Until 1878 it was a rate-making organization but since that time it has exercised neither jurisdiction over rates nor concerned itself with them and is conducted along lines best designated as "educational and technical," having the following purposes:

1. To promote harmony, correct practices, and the principles of sound underwriting; to devise and give effect to measures for the protection of the common interests, and to promote such laws and regulations as will secure stability and solidity to capital employed in the business of fire insurance and protect it against oppressive, unjust, and discriminative legislation.

2. To repress incendiarism and arson by combining in suitable measures for the apprehension, conviction, and punishment of criminals guilty of those crimes.

3. To gather such statistics and establish such classification of hazards as may be for the interest of members.

4. To secure the adoption of uniform and correct policy forms and clauses, and to endeavor to agree upon such rules and regulations in reference to the adjustment of losses as

[8] For examples of their jurisdiction see maps, Appendix L.

may be most desirable and in the best interest of all concerned.

5. To influence the introduction of safe and improved methods of building construction, encourage the adoption of fire protective measures, secure efficient organization and equipment of fire departments with adequate and improved water systems, and establish rules designed to regulate all hazards constituting a menace to the business. Every member is in honor bound to co-operate with every other member to accomplish the desired objects and purposes of the Board.

The expenses of the Board are borne by assessments upon member companies in proportion to their net fire premiums in the United States, and are apportioned upon the receipts of the preceding year. The officers are a president, vice-president, secretary and treasurer. The activities of the association, as of most underwriters' associations, are controlled by various committees, each of which devotes its attention to a particular field.

**The services of national associations.**—We may summarize the services of national associations of the type considered as follows:

1. They educate the public to an understanding of the value of insurance in the reduction of risk.

2. They bring about harmonious co-operation of fire companies and underwriters toward aims broader than merely providing indemnity for loss.

3. They have reduced various expenses which, of course, ultimately fall upon the insured, such as,

   a. Expense of watching legislation.
   b. Expense of protesting against unjust laws.
   c. Expense of reducing arson.

The effectiveness of efforts along these lines has been correspondingly increased.

4. They have compiled and published statistics of the insurance business which are recognized as standard—the National Board Tables—and have made instructive comparisons of data.

5. They have endeavored to reduce arson and incendiarism.

6. They have inspected and criticised the protective facilities of cities and towns and have suggested improvements therein.

7. They have furnished consulting engineers to assist in all kinds of construction and to give advice on apparatus and ordinances.

8. They have set up standards for the installation of lighting and heating devices.

9. They have formulated codes as guides to correct building.

10. They have improved methods of adjusting losses.

11. They have been largely instrumental in causing the adoption of a standard fire policy and have formulated standard forms and clauses.

12. They have tested and inspected fire preventive and protective devices of all kinds and have established a standard of efficiency for such devices.

13. Finally, they have been the greatest factor in educating the public to the fact that reduction in fire losses means reduction in insurance premiums and that the latter is principally dependent on the former.

The above is only a partial list of the services rendered by these organizations; yet it is hoped that it is sufficient to show the benefits derived by the public from their existence, supported though they are principally by private capital. Their very existence is sufficient to show that insurance companies and underwriters are not concerned wholly with furnishing indemnity, and with profits and losses, but perform other real and useful services to society. While indemnity for loss is an indirect and negative service of insurance in the sense that insurance does not replace what is lost, the above presents another aspect of the business, showing results which, although indirect, are yet positive in character.

**Services and functions of sectional and local associations.**—We now proceed to consider the sectional and local associations, which are commission-regulating, rate-making bodies. We may pass over the form of their organization, which is generally a system of committee government, and concentrate attention upon the purposes for which they were organized and upon the services they have rendered.

These sectional and local associations were necessities of the times for the prevention of rate-cutting and excessive expense and for the enforcement of cooperation. They have performed the following economic functions:

I. Services in promoting *economy*.

A. In the making of fire insurance rates they enable the saving of great labor and expense. A single inspection and a single rating suffice for all the companies in a given territory

and a common agency performs the work for all. Instead of thousands of inspectors individually acting as expert buyers (as they may be termed) for separate companies, which naturally involved great duplication of effort, a much smaller number is sufficient to enable these associations to make a common rate for all companies on each risk in a given territory. These rates are distributed to agents operating in the territory who are members of the association. Cooperative action, with its consequent saving, replaced individual effort. Nor does this accurately measure the extent of the saving, for we have not considered that reduction of expense which naturally follows specialization and division of labor.

B. One method of meeting competition in a period of unrestrained rivalry is by increased commissions to agents. Above a reasonable figure this is no advantage to the insured; it is rather an added burden. By means of associated action excessive commissions are prevented and the "rebate" eliminated.[9]

C. A watchful eye may be kept upon insurance legislation without duplication of expense, in order to prevent laws which are prejudicial alike to insurer and insured.

II. Services in promoting *standardization.*

A. Nothing has had so much influence upon the development of scientific, standard methods of rating as these sectional and local associations. They have also furnished an agency through which rate-making systems generally may be intelligently applied and new systems developed. When a number of companies pool their facilities to obtain a rate it must be admitted that the result is more probably just and adequate than where the charge is the result of competition or is influenced by it. It is impossible for ruinous competition in the insurance business to prove of any lasting advantage to the policy-holder. In most other businesses the result of competition among producers or distributors is an advantage, more or less permanent, to the consumer. In purchasing insurance, however, it is impossible for him to receive the same article at the reduced price. The commodity he purchases is not delivered to him at once but over a term of one year, three years or five years. If the price is reduced by 25 per cent. the stability of the selling company is reduced and this stability is the only guarantee that the consumer will receive the paid-for

[9] See Appendix XLIX.

protection. The company, in other words, after the advance payment of the premium, stands in the position of debtor to the insured and it is to the advantage of the latter to have it in as good financial condition as possible. Adequate rates are, therefore, to the common interest and in bringing them about the associations render a service to all. Stamping departments, through which all policies have to pass, were established to prevent secret price-cutting and promote standardization. There is a division of opinion on the subject of loss statistics; but if they are of value in rate-making the association presents itself as an effective medium for their collection and standardization.

B. They standarize the reductions which are made for "long-term" policies and establish standard tables of "short-term rates.[10]

C. The advantages which resulted from the adoption of a standard fire policy will be shown later. Similar benefits have resulted from the activities of the associations in standardizing clauses and forms.[11]

III. Services in *general.*

A. By mutual acquaintance and expulsion of undesirable members the associations have reduced objectionable practices in the business to a minimum. In this respect they may be compared with stock and produce exchanges.

B. Mutual consultation and assistance have enabled underwriters to formulate policies to meet local and national emergencies.

C. They have been instrumental in preventing fire, and in increasing fire protection facilities.

Organizations of underwriters were formerly, and are under the present system, as much economic necessities as railroad traffic associations, steamship pools, export associations, lumber dealers' associations, trades unions or butter and egg "exchanges." They were necessary to terminate rate wars and to insure against future endangering of company solvency by struggles for business at inadequate, profitless rates. Even the insured derived no benefit from the latter. In no business is a price reduction at the expense of quality an undiluted advantage, and every inadequate insurance rate reduced the stability of the company and the value of its promise to pay in-

[10] See Chapter XVI, p. 236.

[11] See Appendices XXXI to XL inclusive.

demnity. The small property owner, indeed, suffered a reduction in his prospective indemnity's quality without enjoying any corresponding cheapness of rate; for the large insurer, in an era of unstable rates, is always the one able to command the reductions. The history of the railroad business is a well-known example of this fact. Competition in rates results in discrimination; the tariff associations were designed to promulgate and enforce uniform charges.

In spite of the legitimacy of the associations' objects, the advantages of which have long been recognised in foreign countries, abuses crept into the system while unrestrained by intelligent regulation. The opponents of the system alleged, and in some instances proved, (1) an absence of classified statistics to support the rates made, (2) discrimination, and (3) arbitrary control of the licensing of brokers. These are considered at greater length in the chapter on fire insurance rates.[12]

[12] For a more extended discussion of Underwriters' Associations see Robert Riegel, "Fire Underwriters' Associations," *Chronicle Co.*, N. Y.

# Part II

# PERSONAL INSURANCE

## Chapter V

# TYPES OF LIFE INSURANCE POLICIES

**Importance of selecting the proper policy.**—When securing a life insurance policy there are two things in which the purchaser is preeminently interested. First, he wants to know how much he has to pay in the form of a premium and secondly, what the insurer promises in return. Both will depend on the nature of the policy obtained, for many variations exist. These differences have been introduced to meet the needs and circumstances of distinctive cases, with the result that a person desiring insurance protection can secure a policy which meets his requirements and fits his pocketbook. It should not be assumed from this that any one policy is "cheaper" or "better" than another, except for a particular purpose, because all are on a mathematically equivalent basis; and although the premium on one type of policy may be lower than on another, the difference is mathematically justified. In all cases the insured gets just what he pays for, no more and no less; the price of life insurance, unlike the price of many other commodities, is based on cost. While no particular policy is universally better than another, there is usually one policy that is more nearly adapted to individual needs than any other, as is true of other commodities. Prices, sizes and styles vary to meet the desires and requirements of the buyer. Therefore we proceed to a discussion of the various types of policies and the circumstances to which they are best suited, viewing them with respect to (1) what the insured must pay, and (2) what he or his beneficiary receives.[1]

**The single-premium policy.**—To start at one extreme, let us first take the case of a wealthy individual, the owner of a large and, at present, prosperous enterprise. He is now amply supplied with cash but he knows that history supplies many examples of men who were once rich and later poor. He knows that a business which has taken years to build up may

[1] For sample of a life insurance policy see Appendix III.

disappear in a few months, often through no fault of the owner, and that investments considered "gilt-edge" may sometimes involve the loss of millions. He wishes to protect his dependents absolutely, without the chance of any inability on his part or theirs to meet the premium payments of the future, and therefore he does not desire to enter into a contract involving the payment of premiums for a term of years or for his lifetime. Here is a perfectly definite situation which demands a definite solution and obviously not every kind of a policy will meet his needs.

We find by inquiry that several companies quote a rate known as a "single premium." This is exactly what its name implies, and means that for the payment of one sum of sufficient size a company will assume all the liabilities of a life insurance contract and will never collect any additional sum from the insured. This meets the needs of our hypothetical but not unique case. It can readily be seen that one premium of this nature, which takes care of the policy for its entire duration, will necessarily be a very large sum. Thus, if we examine the rates of one company we find that at age 25 the single premium on an ordinary-life policy for $1,000 is $400, while the annual level premium on the same policy is only $20.70.

TABLE OF ANNUAL RATES ON VARIOUS POLICIES OF $1,000 EACH, AT DIFFERENT AGES, IN AN OLD LINE MUTUAL COMPANY.

| *5-Year Renewable Term* | *Ordinary-Life* | | *20-Payment Life* | | *20-Year Endowment* | |
|---|---|---|---|---|---|---|
| *Age* | *Annual* | *Single* | *Annual* | *Single* | *Annual* | *Single* |
| 20....11.60 | 18.50 | 372.50 | 28.10 | 372.50 | 47.50 | 650.00 |
| 25....12.00 | 20.70 | 400.00 | 30.40 | 400.00 | 48.10 | 651.50 |
| 30....12.60 | 23.50 | 432.50 | 33.20 | 432.50 | 48.80 | 654.00 |
| 35....13.50 | 27.00 | 470.00 | 36.70 | 470.00 | 50.00 | 657.50 |
| 40....15.00 | 31.70 | 513.50 | 41.00 | 513.50 | 51.80 | 664.00 |
| 45....17.60 | 38.00 | 563.50 | 46.50 | 563.50 | 54.80 | 675.50 |
| 50....22.50 | 46.60 | 619.00 | 53.80 | 619.50 | 59.60 | 694.00 |
| 55....31.10 | 58.30 | 679.00 | 64.00 | 679.00 | 67.60 | 722.50 |
| 60....45.50 | 74.60 | 741.50 | 78.30 | 744.50 | 80.20 | .... |

It is evident that the advantages of the single-premium policy are:

1. The insured is free from the trouble of providing for the payment of the annual premiums otherwise required for a long term of years or for the remainder of life.

2. The insured has the satisfaction of knowing that his object is definitely accomplished and that no inability on his part to pay premiums in the future can defeat that object.

3. The insured obtains the benefit of compound interest on a large sum, which makes the aggregate which he actually pays out less than it otherwise would be.

4. If the insured lives to an advanced age the amount he pays as a single premium is less than the total he would have paid in the form of annual premiums.

The disadvantages to the average person of the single-premium method, however, are so great that it is seldom used.

1. The sum necessary for a single premium is so large that few persons are willing and able to pay it at one time.

2. If the insured has the sum necessary he may be able to earn a larger rate of interest on it than that earned by the insurance company. In doing so he usually takes a greater risk, however.

3. If the insured dies at an early age he has paid a very great deal more for protection than if the premium were paid annually.

We see, therefore, that the single-premium method is totally unsuited to the circumstances of the great majority of persons and that it is useful only to the man of considerable means who does not wish to be annoyed by future premium payments. This is not so slight an advantage as appears at first sight. Many men of wealth have become almost penniless and even objects of charity in their old age, and at their death have seen their dependents left unprovided for. By the single-premium method they might have insured the future of their dependents beyond a doubt when they were wealthy and well able to do so. Another illustration of the use of the single-premium policy is found in the case of the wealthy man who desires insurance for some specific purpose, such as to meet an inheritance tax. When he is amply supplied with funds, he can afford to pay a single premium to insure the payment of this tax upon his estate. It furnishes also a method by which a life insurance policy may be presented as a gift, the donor handing the recipient a full-paid policy with no obligations attached. It will be noted that the single-premium payment is particularly suited to the purchase of an annuity, the insured "saving" a large sum immediately for the benefit of assured periodical payments in the future. The single-pre-

mium principle may be applied to any of the various kinds of policies mentioned hereafter in this chapter.

**Term insurance.**—Turning now to the other extreme, there is the man who needs insurance primarily for the protection it affords. Let us imagine a young lawyer with fine prospects for the future but with heavy family responsibilities and an income as yet very small. This is the situation of thousands of professional men at some stage of life. Obviously the single-premium policy would be unsuited to his circumstances; what he needs is the maximum protection with the minimum cost. This can be secured by means of a "term" policy, which is temporary insurance obtainable for various periods. This is a contract by which the insurance company promises to pay a stipulated sum upon death, provided death occurs within an agreed-upon period—one year, five years, ten years, or twenty years. If the insured outlives the period he receives nothing. He pays simply for protection during the agreed-upon period and the policy contains practically no investment or saving element. The simplest form of term policy is that which is issued for one year only and is renewed annually, the insured being charged the so-called "natural-premium," based upon the probability of death within one year from the attained age. At the younger ages this probability is very low, resulting in the lowest annual cost of any type of policy; but in the later ages, as the probability of death increases, the cost mounts rapidly. Thus, we find that a company which quotes a rate of $11.82 for a one-year term policy of $1,000 at age 25 charges $28.63 for a similar policy issued at age 55. The same principle is extended to a five-, ten-, or twenty-year period and provides for level premiums for the duration of the period. Thus a person takes out a five-year term policy at age 25 and pays an annual premium of $12. When he reaches age 30, the term of the contract has expired and he must renew the protection if he still has need of it. The premium for the new five-year term policy at age 30 is $12.60. The insured may continue to renew the policy as long as desired, without medical examination, provided it contains the renewable feature, but it will be noted that in the later years of life its cost rises rapidly, like the natural premium.

Let us now assume the case of a young business man who is applying to a bank for a loan. He is the principal asset of the business, and the bank feels that without his personal

direction the other assets would be of little value. Under these circumstances the bank may, and now frequently does, request that it be given the protection of a life insurance policy, payable to the business. It is evident that with the repayment of the loan the necessity for the policy ceases, and under these circumstances term insurance furnishes the cheapest method of meeting the bank's wishes.

At the present time it is not uncommon for business institutions to finance the university education of promising employees. Philanthropic institutions also offer scholarships to deserving young men. It is apparent that the benefit which is expected from the payment of the tuition is incorporated in the existence of the young man and that his death will wipe out the value created by the education. A term policy would, at small cost, protect against the loss of the tuition by premature death.

Let us consider the case of a man who has undertaken a contract of purchase calling for periodical payments, as is the case with hundreds of thousands of young persons purchasing homes through building and loan associations. It is always taken for granted by such persons that they will live to complete the payments and that their dependents will be provided with a place in which to live. A premature death will end these hopes, however, and this unfortunate contingency may be most cheaply protected against, or "hedged," by a term policy for a period coinciding with the term of the contract of purchase or mortgage. Five per cent of all policies are of this type.

Summarizing the advantages of term insurance, we find that they are as follows:

1. The cost is small. An annual premium for a five-year term policy at age 25 is $12, while an ordinary-life policy at this age costs $20.70 annually. This is because of the absence of any "saving" or "investment" element in the term policy. Hence, this policy is ideally suited to the circumstances of the young lawyer or physician who has assumed family obligations upon a small income.

2. It enables a person to secure the maximum protection for a given sum. Thus, assuming that the young professional man has $50 a year available for protection this will buy him only $2,415 of ordinary-life insurance, but $4,166 of term insurance.

3. If the policy contains a renewable feature it may be

renewed from time to time and the protection continued as long as desired, without medical examination. If it contains the convertible feature it may be converted into some other form of policy, without medical examination.

4. The policy may be cancelled at any time without loss to the insured.

The disadvantages of this type of policy must not be under-estimated, however. They are as follows:

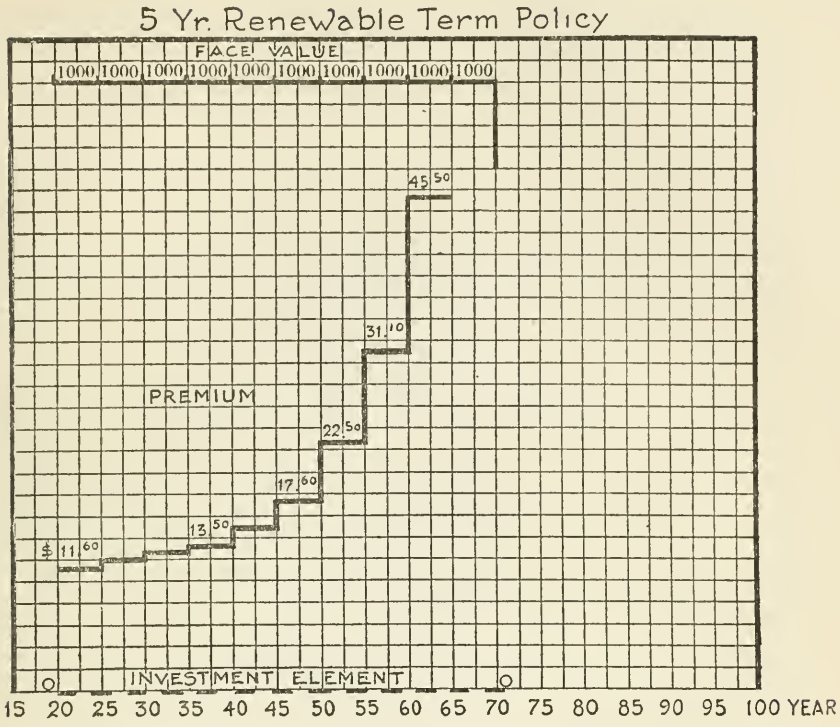
1. While the cost is small, this is because the insured is saving nothing. Under the ordinary-life policy the savings of the early years of life are utilized to reduce the premiums of the later years, thus enabling a level premium. Under the term plan, however, the premiums increase with age until in later life they become, like the natural premium, prohibitive.

2. While the insured gets the greatest amount of protection for the given sum, it is a type of policy which is peculiarly likely to lapse. The insured himself has nothing to look forward to and it is therefore a policy suitable only for the most unselfish purposes. Many persons, becoming discouraged at paying premiums and receiving nothing but protection, discontinue all insurance.

3. While it may be convertible into other forms of insurance, such as ordinary-life, the insured must pay the premium for the new form of insurance at the attained age, and said premium is higher at the attained age than it would have been if the final form of policy had been taken out originally. Thus, if a young man at age 25 carries term insurance for fifteen years and then converts it into ordinary-life insurance he pays a premium annually of $31.70, whereas an ordinary-life policy taken out at age 25 would have cost only $20.70 annually.

4. Many persons are disappointed at the end of ten or fifteen years of premium paying because they have accumulated nothing, forgetting that the premium is small on a term policy only because it furnishes nothing but protection and that they have had the benefit of that protection for the period.

5. If the term policy does not contain the renewable and convertible feature (which most of them do), the insured may find himself without insurance at a time when he needs it most, because of inability to pass a medical examination. This objection has no force where the renewable and convertible privilege exists, as is the case with the insurance which the




United States Government has provided for its soldiers and sailors. This is a one-year renewable term policy on the increasing step-rate plan for a period extending not more than five years after the proclamation of peace, during which time it is convertible into any of six different policies providing permanent protection.

Ordinary-life.—Next let us consider the case of the salaried individual, such as a teacher. He seldom has a sum of sufficient size at any one time to meet the cost of a single-premium policy but the annual premium is in all probability within his reach. His salary is paid at regular intervals and he no doubt prefers to meet his bills in the same manner. Moreover, his salary, although small, is rather definitely assured over a long period of years and at the end of that period he is sometimes pensioned. The term policy is available to him, but he may prefer a more permanent form of policy even though for a smaller amount. Therefore, it is quite likely that he will take out a "whole"- or "ordinary"-life policy and pay an annual level premium as long as he lives.

If it is desired the annual premium may be broken into semi-annual or quarterly payments and in this manner be adapted to the needs of the person who finds it difficult to lay aside a larger amount. We find that the company which quotes the rates given in the table on a preceding page will charge $10.70 semi-anually and $5.40 quarterly for a $1,000 ordinary-life policy issued at age 25, as compared with an annual premium of $20.70. This feature is of course extended to the other types of policies because it is a well-known fact that most persons find it easier to pay $25 four times a year than four times that amount once a year.

The advantages of the ordinary-life policy are:

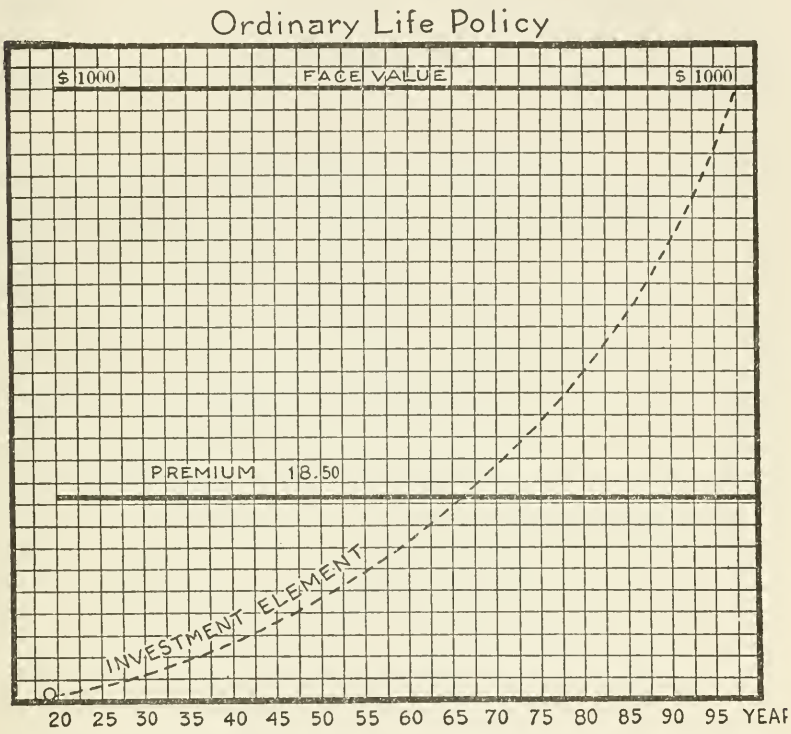
1. A permanent form of policy is secured at a reasonable cost.
2. The payment of the premium is distributed over life in accordance, approximately, with the insured's earning power.
3. The policy combines protection with a small degree of saving. The insured may borrow on his ordinary-life policy, while on the term policy he has no accumulation which permits this privilege. He may also withdraw from the contract and receive a surrender value, which is lacking under the term policy.
4. By the use of the "dividends" or refunds which he may expect in a participating company he may obtain a paid-up policy at about age 65, thus bringing his premium payments to an end at about the time his income-producing power ceases.
5. The insured obtains a greater amount of immediate protection under the ordinary-life policy than under certain other policies which require higher premiums.

The disadvantages of this form of policy are merely relative when compared with other forms, which accounts for its great popularity, about 53 per cent of all policies issued being of this type.

1. Not as much insurance can be purchased for a given premium as under the term plan.
2. The premiums must be paid for a long period and the insured's earning power may diminish or cease.
3. The interest earned on the saving or investment element is lower than might be earned in other ways, although the factor of risk by these other methods must be considered.

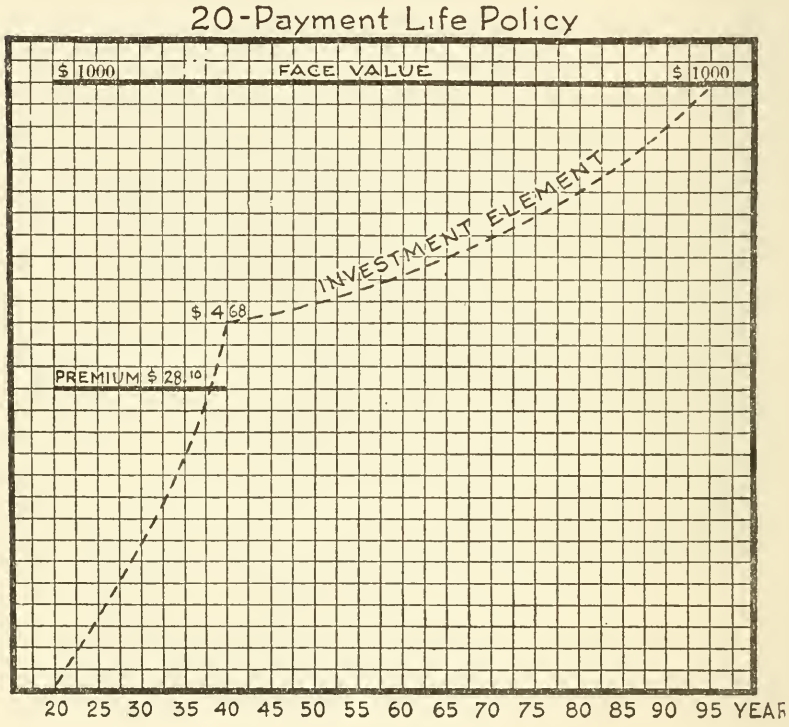
While the whole or ordinary-life policy will fit more persons than any other one policy because it involves the lowest

annual cost of any policy which provides permanent protection, it is nevertheless open to the objection that the insured may outlive his earning power and the payment of the premium actually become a hardship. This objection is met by another type known as the "limited-payment" policy.




**Limited-payment.**—There are many persons whose earning power is limited to a certain period of life, as, for example, a person whose work involves considerable activity or physical effort. These individuals may be much in need of insurance, but a policy requiring life-long payments is undesirable. Take, for illustration, an actor who is twenty-five years of age and whose present earnings are very large. He figures that at best he cannot retain his skill and ability to amuse audiences beyond fifty-five years of age, and the question arises in his mind of how to meet payments after that time. The solution of his problem is a limited-payment policy; either a twenty- or thirty-payment life exactly fits his needs. The annual level premium on a twenty-payment life policy for $1,000

at age 25, according to our table, is $30.40, compared with $20.70 for the ordinary-life contract. For a difference of $9.70 he makes certain that when he reaches forty-five years of age his insurance will be fully paid for the balance of his life, regardless of how long he lives, and he obtains exactly the same protection which the ordinary-life policy affords. The company has collected a higher premium but in return has promised that no more premiums shall be due after a certain date, no matter how long the insured continues to live. After the




payment of the first premium the proceeds are payable at death if the policy has not lapsed. In a later chapter it will be seen that all forms of premiums are reduced to a mathematical basis, one equivalent to the other, and that the above arrangement is a fair and equitable one to all concerned. If the insured should be so unfortunate as to die shortly after the policy is issued he has, of course, paid more for the protection than under the annual-premium plan. On the other hand, however, if his life exceeds the usual span he has paid

less than under the annual plan. Thirty per cent of all contracts issued are of the limited-payment type.

**Endowments.**—We will next consider the endowment policy, which promises payment upon death, if this event occurs within a certain specified period, and also agrees to make the payment in case of survival at the end of the stipulated time.[2]

Naturally a policy that pays for either death or survival over a designated number of years will cost more than one which provides payment for death only. Thus, the company whose rate is $20.70 per year for an ordinary-life policy of $1,000 issued at age 25, charges $48.10 for a twenty-year endowment issued at the same age for a like amount, $38 for a twenty-five year endowment and $31.70 for a thirty-year endowment. What particular advantage has this policy to justify a higher premium? An illustration may help to make this clear. If we take the case of a well-known New York financier who received an income of $50,000 anually, but who was not able to save any of it, we can realize how many persons with a smaller income are frequently in a similar position. This gentleman, one of the ablest financial men of his time, spent his salary as rapidly as it flowed in, and all attempts to save any of it were futile. This worried him, as he was fully conscious that the time was approaching when his income would diminish and he would have nothing laid aside for the proverbial rainy day. An insurance salesman suggested an endowment policy as a means of saving his money and at the same time providing family protection. The combination of this protection and investment feature appealed to him and he was insured for $100,000 on a twenty-year endowment policy.

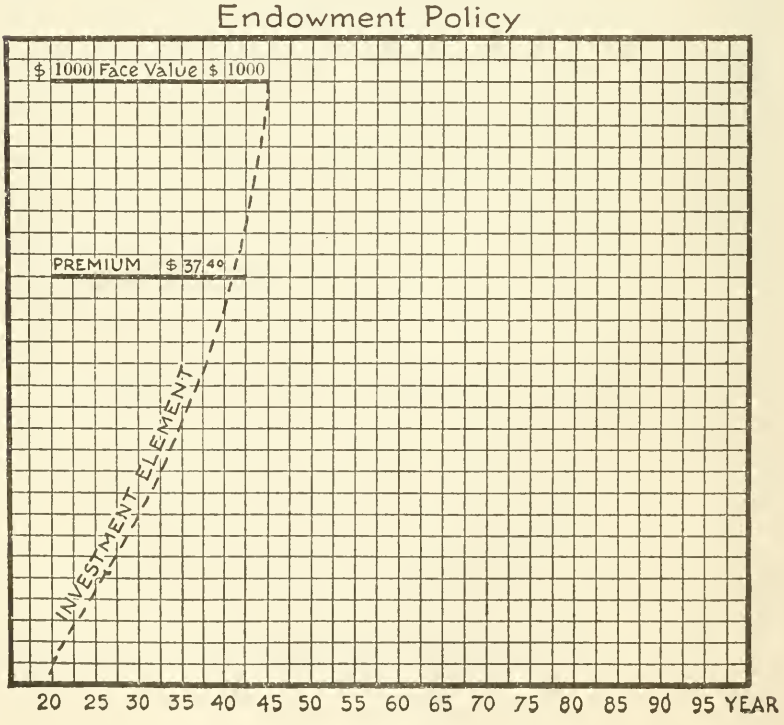
A situation with less money involved is frequently encountered, particularly among younger men, and a contract which compels them to lay aside a certain sum periodically acts not only as an incentive to save but actually forces thrift upon them.

To give another illustration of the usefulness of an endowment, a person with a small amount of cash may safely purchase a home with a lien against it and provide for the retirement of the mortgage with an endowment policy. The advantage is that, in event of premature death, the proceeds of

[2] For sample policy see Appendix III.

the policy will be available immediately and prevent possible foreclosure. If he adopts the method of paying the debt by saving a certain amount each year an untimely death may cut this short, while an endowment meets this contingency and the sum is assured either at death or at the end of the endowment period.

This form of policy may also be used to excellent advantage by a contract on the life of a child which will mature about the time he is old enough to attend college. In many cases this is the only means whereby an education may be assured. Several endowments maturing during each of the several years while the son or daughter is attending college would further facilitate matters. These "child" endowments may also be used to give a young person a financial start in the world. Or in the case of the "long-term" endowment, maturing when the policy-holder is from sixty to seventy years of age, the proceeds may be used to protect the insured against the consequences of his economic death, i.e., the loss of earning power. This may be done by placing the fund in trust; or by investing



it and using the income from it; or by using the income and a part of the principal each year; or better still, by the purchase of an annuity. Twenty-year endowments form five per cent of all contracts issued.

**Annuities.**—An annuity may be defined as an insurance contract wherein the insurer, in consideration of a certain premium, promises to pay a definite income to the annuitant. This contract may be purchased by a single premium and the payments by the company will begin six months or a year later. This is called an "immediate" annuity. Or the annuity may be bought by annual level premiums over a period of years and the company begin its payments at the end of this term of years. This is known as a "deferred" annuity and has the advantage over the preceding type that the premium is spread out over a long period of years and the individual is better able to pay in this manner than by one single premium.

The annuity policy may provide for annual, semi-annual, quarterly or monthly payments, either for a certain term of years or for the balance of the life of the annuitant, depending on the kind of annuity purchased.

The advantages of annuities are: (1) a person can make sure of receiving an income in old age; (2) he can safely distribute an estate before death by making sure of a life income for himself; (3) the rate of return on the money paid to the insurance company is very high when the annuity is taken out at an advanced age. The objection to either the immediate or deferred annuity is that in case of death all premiums are considered fully earned by the company and the contract is terminated. This objection is sometimes removed by promising that a certain number of installments of the annuity will be paid even if death occurs and in the case of the deferred annuity by providing that all premiums shall be returned in such event. Of course additions to the premiums are necessary in order to take care of such promises.

**Installment insurance.**—Although most persons think that it is preferable to have the proceeds of the policy payable in a lump sum, it undoubtedly would be better for the beneficiary in the majority of cases if the policy were paid in installments. The old adage of the widow with the proceeds of a life insurance policy being "a shining mark for a mining shark" is just as true to-day as ever. To protect the widow against the lure of speculation the insured may obtain a policy providing that

the proceeds will be paid in ten, fifteen, or twenty equal annual installments. Many others arrangements may also be made with regard to payment of the policy proceeds. If the face of the policy is $10,000 and the proceeds are payable in ten equal annual installments, the insurance company naturally makes an interest allowance for the sums thus retained each year up to the final payment. Therefore, it can afford to make each installment something more than $1,000. On the other hand, the policy may promise to pay the proceeds in ten installments of $1,000 each, and in that case the face of the policy is not the full $10,000 because of the interest allowance. The installment method of paying the proceeds gives rise to the name "income" policies, one of the best types of insurance to make a person realize the amount of protection he requires. Suppose we take the case of a married man with a wife, two children, aged four and seven years, and an income of $5,000 per year. Granting that a man uses one-half of his income on himself, that would still leave $2,500 needed annually for the rest of the family, an income which would be brought to an end by the premature death of the husband. A $5,000 policy is often considered a large amount of insurance, yet this would only produce, at six per cent, an annual income of $300, which is ridiculously inadequate. The only logical arrangement is to have a policy producing an income of $2,500, in order to eliminate the financial hardships that the dependents might otherwise have to endure.

Many policies permit the installments to be paid monthly, quarterly, or semi-annually as well as annually. Another arrangement makes the installments certain for a definite number of years and continuous thereafter as long as the beneficiary may live. Necessarily, on policies of equal face values, the installments paid under the latter provision will be smaller than in the case where they cease after a certain number of payments have been made. The reduction will be in accordance with a calculation made on the basis of the probable extended life of the beneficiary, and the longer this period, the smaller will be the installments. Payment of proceeds by means of a "gold bond" should also be mentioned. When the insured dies, a gold bond to run for a definite period of years and bearing a stipulated rate of interest is issued to the beneficiary. This interest is paid at specified times to the beneficiary and at the maturity of the bond the principal is paid.

Briefly summarized, the advantages of the installment policy are:

1. The beneficiary is protected against loss of the proceeds through fraud or unwise investment.

2. The premium is smaller in proportion to the face of the policy, buying more in installments than it could in a lump sum.

3. If the installments are continuous, the beneficiary is provided for as long as he or she lives.

4. The insured may make sure that the beneficiary will receive at least a certain amount by buying a contract which provides for a definite number of payments.

5. If the payments extend over a sufficient period they will provide for the education of the children.

6. The beneficiary is relieved of the trouble and expense of managing the fund, the insurance company assuming this responsibility.

The only disadvantages connected with the policy are:

1. The beneficiary may, for some very good reason not foreseen or imagined by the insured, have need of a lump sum of money.

2. The beneficiary, unless the policy provides for continuous installments, may outlive the installments provided for.

**Combinations.**—We have explained the most common contracts in life insurance, but nearly all of those mentioned can be further adapted to particular circumstances by combinations of the various features.

Let us take, for illustration, the case of a young physician aged twenty-five, whose earnings are as yet small and who takes out a one-year renewable term policy on the increasing step-rate plan and containing the conversion privilege. This seems to be a good type of policy for a few years. Later, however, when he is thirty years of age, his earnings have increased and he desires permanent protection. According to the conversion privilege, he may choose from a number of policies, and the question is, which meets his needs? Estimating that his best earning period will be between the ages of thirty and fifty, he thinks a limited-payment policy will suit him. At the same time he realizes that when he reaches sixty-five or seventy he will wish to retire; therefore, he would prefer an endowment maturing at that time, enabling him to purchase an annuity or provide in some other manner for his declining

years. So he converts his term policy into a twenty-payment forty-year endowment. This means that he will pay premiums from age 30 to 50 and at age 70, if he is still living, the insurance company will turn over to him the proceeds, although in case of death at any time between the writing of the policy and age seventy the policy will be paid to the named beneficiary. He may also stipulate that in case of his prior death the proceeds shall be paid in installments in accordance with any of the arrangements mentioned on a previous page. There are frequently other and more complicated schemes. This illustration is given with a view of showing a few possibilities of combining various features in a single policy, the premium always being adjusted to meet the requirements of the case. In all instances the insured receives exactly that for which he pays. When making comparisons of rates on different policies of like amount at the same age the "guaranteed" values should always be observed as well as maturity dates, because the higher the premium, the greater the loan and cash values. A fuller description of these relative values is reserved for a later chapter.

Special contracts.—While the foregoing explains the types of policies that are the most common, there are nevertheless a great many other varieties of a special character. These may be classified in two groups: (1) those involving more than one life and (2) those that provide, by special clauses or endorsements, for some adjustment of premium, face value or proceeds. In the first group we have:

*1. Joint life.*—This is a policy which insures two or more lives and promises payment when the first death occurs. Its only extensive use has been by partnerships, where the members of a firm are insured under one contract, the advantage being a lower premium than if each partner were separately insured. When a death occurs under such a policy it expires, however, and if protection is needed for the remaining members a new one must be secured, which may not be possible.

*2. Last survivor.*—Two or more lives are involved in this policy but it differs from the joint-life policy in that payment is not made until the last member of the group dies, instead of the first.

*3. Contingent or Survivorship.*—This differs from the previous policies in that payment is made only if a certain person dies and another continues to live. This is of value to

protect a lender, where a person by borrowing has anticipated his right to an estate at some future time, the right to the estate being contingent upon his outliving another person.

*4. Last-survivor annuities.*—This policy promises to pay an annuity to two or more persons as long as they live. Should death occur the full amount will be paid to the survivor or survivors until all are dead. Ordinarily not more than two lives are involved, usually a husband and wife.

*5. Reversionary Annuity.*—The beneficiary of the policy receives a life annuity if the insured dies first but nothing is paid and the contract expires if the beneficiary dies before the insured. This is really a form of income policy and makes certain at low cost that the beneficiary will have a life income if the insured is the first to die.

The second group of special contracts should be divided into two sub-groups.

1. According to adjustment of the premium, which may be taken care of by clauses providing for:

*a. Waiver of Premiums.*—A clause to the effect that in case of the total and permanent disability of the insured the policy shall be considered full paid for its face value and no more premiums required. Usually the disability must begin before the insured reaches age sixty.

*b. Return of Premiums.*—A promise that in case of death within a certain time a part or all of the premiums will be returned in addition to the payment of the face of the policy. This is easily possible as the cost of this special feature has been added to the original premium.

*c. Decreasing Premiums.*—The early years of the policy have very high premiums, which offset the later years. Usually these scale down year after year until no more premiums are paid. In other words, it is a modification of the limited-payment policy and has practically the same advantages.

2. According to adjustment of the face of the policy:

*a. Decreasing face value.*—These forms provide that when the insured attains a certain age the face of the policy shall be reduced each year by a certain amount until a definite face value is reached which is then considered paid-up. This type of policy gives a greater amount of protection in the years when most needed and gradually decreases as the necessity for the insurance decreases.

*b. Multiple indemnity.*—Double the face value is some-

times provided for if death results from an accident. A very small addition to the regular rate is necessary for such a "frill."

*c. Disability.*—In addition to the waiver of the premium in case of disability, it is frequently provided that in case of total and permanent disability the proceeds of the policy shall become due and payable. This is sometimes accomplished by the payment of equal annual installments over a period of years, in which case the face of the policy is decreased by the amounts so paid and when death occurs only the difference is payable.

There are other kinds of disability clauses which promise an income, and in addition pay the full face of the policy when death occurs; but the cost of such variations must always be included in the premium.[1]

Disability insurance is frequently written by collateral contracts covering accident and health, and a full description of these is given in a later chapter.

[1] See disability clauses in Appendices III and IV.

## Chapter VI

# NET AND GROSS LIFE INSURANCE PREMIUMS

Life insurance premiums and "cost of production."—The previous chapter has shown that life insurance policies, like suits of clothes, must be adapted to the different needs of various classes of persons. It is plain that they are like suits in other respects—there is a diversity in character, length of service[1] and price. Again, the price charged for the different policies must be at least sufficient to cover the cost of production and yet low enough to compete with the articles offered by other sellers. As a consumers' mutual association for manufacturing clothing sells goods at cost of production plus the expense of marketing, so a mutual life insurance company sells its policies at cost of production plus expenses. On the other hand, the stock company, organized for profit to the stockholders, is induced by competition to meet the rates of the mutual as far as possible.

It is evident from the foregoing that in life insurance (1) the cost of production will largely govern the premiums charged and (2) that this cost of production differs for various types of policies. The cost of production in manufacturing corresponds to the "mortality cost" in life insurance, for the life insurance company is selling protection. The

[1] For example, we find a company quoting rates as follows:

ANNUAL PREMIUM RATES PER $1000

| *Age* | *Ordinary Life* | 10-*Payment* | 20-*Payment* | 10-*Yr. Endowm't.* | 20-*Yr. Endowm't.* | 10-*Yr. Renewable Term* |
|---|---|---|---|---|---|---|
| 20 | $18.50 | $45.50 | $28.10 | $100.10 | $47.50 | $11.70 |
| 25 | 20.70 | 49.10 | 30.40 | 100.60 | 48.10 | 12.30 |
| 30 | 23.50 | 53.40 | 33.20 | 101.20 | 48.80 | 13.00 |
| 35 | 27.00 | 58.50 | 36.70 | 102.10 | 50.00 | 14.20 |
| 40 | 31.70 | 64.60 | 41.00 | 103.30 | 51.80 | 16.10 |
| 45 | 38.00 | 72.00 | 46.50 | 105.30 | 54.80 | 19.80 |
| 50 | 46.60 | 81.00 | 53.80 | 108.60 | 59.60 | 26.30 |

marketing or selling expense of a manufacturer is duplicated by the "loading" or expenses allowed in life insurance to cover commissions to agents for obtaining the business, the maintenance of offices, etc. A broad knowledge of any business must include a knowledge of its costs, prices and expenses. The elements which enter into the cost of insurance and its selling expense will evidently throw considerable light upon the operations of a life insurance company and the relations between it and the persons insured. In fact, such a consideration is absolutely essential to an intelligent discussion of life insurance problems or to the efficient buying and selling of life insurance protection. In this respect, also, insurance does not differ from any other commodity, for the salesman who knows his goods is able to sell more with greater satisfaction to his customers, and the customer who buys judiciously is more likely to purchase the kind of commodity which meets his requirements.

**Elements of cost in life insurance.**—The cost of production of the commodity life insurance includes mortality and expense, which together determine the premium to be charged. Let us now consider the former. The mortality cost of different types of policies is primarily determined by the amounts which the company must pay out in death claims on these different types. At this point it is important to note that life insurance differs from other commodities in that the price is fixed and collected before the goods are delivered. This has two vital consequences—(1) we must be prepared to estimate the death claims before they become due and payable, and (2) since we collect the price in advance and have the use of the customer's money, we must be prepared to allow him interest. It would be more correct, therefore, to say that the mortality cost depends upon the *present value* of the *expected* death claims.

**Mortality tables.**—The only way in which we can gauge the death claims of the future is by the experience of the past. Life insurance is based upon facts exhibited by past experience and embodied in a so-called "mortality table." We assume that history will repeat itself under similar conditions, and from the mortality table, with the assistance of the principle of probability, we are able to predict the future. We cannot forecast the future for a single individual but we can foresee with

tolerable accuracy what will happen to a large group of individuals. Various investigations have resulted in slightly different representations of past facts; hence there are different mortality tables, the variations being principally due to the conditions under which the facts were compiled. The two most important tables at present are (1) the American Experience Table, based mainly upon the lives insured in a large American company, and prescribed by law in many States as a basis of valuation, and (2) the National Fraternal Congress Table, based upon the lives of persons insured in fraternal organizations. We present on page 74 the American Experience Table, which will be used in our illustrations in this chapter. It will be noted that this table shows for each age up to and including age ninety-five the number of persons alive at the beginning of the year and the number dying during the year.

At age twenty-five, for example, out of every 89,032 persons, 718 die during the year and before they reach age twenty-six, leaving 88,314 persons alive at the latter age. Similar information is given for every age. Although this table starts for convenience with 100,000 lives, it might equally well start with any other assumed number. The important fact shown by the table is not the *absolute* number of persons alive and dying, but the *ratios* between those dying during the year and those who began the year alive, and between those alive at the beginning of various years. The absolute figures used are of no consequence, therefore, so long as they show these ratios correctly. The table was not constructed, as a matter of fact, by the observation of 100,000 persons from age ten to age ninety-six, but by noting the percentage of persons aged twenty-five who died in one year, the percentage of persons aged twenty-six who died in one year, etc., and then applying these various percentages to a hypothetical group of 100,000, starting at age ten. By this table, with the help of the principle of probability as stated, we can predict the future.

**Principle of probability.**—The principle of probability employed may be illustrated by a person rolling dice. Each die has six sides with six different numbers engraved thereon, any one of which is equally likely to come uppermost when the die is rolled. What is the chance that a person will obtain a four upon rolling a die? This chance may be and is com-

AMERICAN EXPERIENCE TABLE OF MORTALITY

| *At Age* | *Number Surviving* | *Deaths* |
|---|---|---|
| 10 | 100,000 | 749 |
| 11 | 99,251 | 746 |
| 12 | 98,505 | 743 |
| 13 | 97,762 | 740 |
| 14 | 97,022 | 737 |
| 15 | 96,285 | 735 |
| 16 | 95,550 | 732 |
| 17 | 94,818 | 729 |
| 18 | 94,089 | 727 |
| 19 | 93,362 | 725 |
| 20 | 92,637 | 723 |
| 21 | 91,914 | 722 |
| 22 | 91,192 | 721 |
| 23 | 90,471 | 720 |
| 24 | 89,751 | 719 |
| 25 | 89,032 | 718 |
| 26 | 88,314 | 718 |
| 27 | 87,596 | 718 |
| 28 | 86,878 | 718 |
| 29 | 86,160 | 719 |
| 30 | 85,441 | 720 |
| 31 | 84,721 | 721 |
| 32 | 84,000 | 723 |
| 33 | 83,277 | 726 |
| 34 | 82,551 | 729 |
| 35 | 81,822 | 732 |
| 36 | 81,090 | 737 |
| 37 | 80,353 | 742 |
| 38 | 79,611 | 749 |
| 39 | 78,862 | 756 |
| 40 | 78,106 | 765 |
| 41 | 77,341 | 774 |
| 42 | 76,567 | 785 |
| 43 | 75,782 | 797 |
| 44 | 74,985 | 812 |
| 45 | 74,173 | 828 |
| 46 | 73,345 | 848 |
| 47 | 72,497 | 870 |
| 48 | 71,627 | 896 |
| 49 | 70,731 | 927 |
| 50 | 69,804 | 962 |
| 51 | 68,842 | 1,001 |
| 52 | 67,841 | 1,044 |
| 53 | 66,797 | 1,091 |
| 54 | 65,706 | 1,143 |

AMERICAN EXPERIENCE TABLE OF MORTALITY

| *At Age* | *Number Surviving* | *Deaths* |
|---|---|---|
| 55 | 64,563 | 1,199 |
| 56 | 63,364 | 1,260 |
| 57 | 62,104 | 1,325 |
| 58 | 60,779 | 1,394 |
| 59 | 59,385 | 1,468 |
| 60 | 57,917 | 1,546 |
| 61 | 56,371 | 1,628 |
| 62 | 54,743 | 1,713 |
| 63 | 53,030 | 1,800 |
| 64 | 51,230 | 1,889 |
| 65 | 49,341 | 1,980 |
| 66 | 47,361 | 2,070 |
| 67 | 45,291 | 2,158 |
| 68 | 43,133 | 2,243 |
| 69 | 40,890 | 2,321 |
| 70 | 38,569 | 2,391 |
| 71 | 36,178 | 2,448 |
| 72 | 33,730 | 2,487 |
| 73 | 31,243 | 2,505 |
| 74 | 28,738 | 2,501 |
| 75 | 26,237 | 2,476 |
| 76 | 23,761 | 2,431 |
| 77 | 21,330 | 2,369 |
| 78 | 18,961 | 2,291 |
| 79 | 16,670 | 2,196 |
| 80 | 14,474 | 2,091 |
| 81 | 12,383 | 1,964 |
| 82 | 10,419 | 1,816 |
| 83 | 8,603 | 1,648 |
| 84 | 6,955 | 1,470 |
| 85 | 5,485 | 1,292 |
| 86 | 4,193 | 1,114 |
| 87 | 3,079 | 933 |
| 88 | 2,146 | 744 |
| 89 | 1,402 | 555 |
| 90 | 847 | 385 |
| 91 | 462 | 246 |
| 92 | 216 | 137 |
| 93 | 79 | 58 |
| 94 | 21 | 18 |
| 95 | 3 | 3 |

monly expressed by a fraction, of which the number of possibilities is the denominator and the number of possibilities fulfilling the conditions the numerator. The chance in this case is therefore, 1/6, or one in six. What is the chance that either a four or five will be shown? Here two possibilities fulfil the condition, and consequently the chance is 1/6 (the chance of a four) plus 1/6 (the chance of a five), or 2/6. By applying this idea to the table we can obtain fractions indicating the probability of dying or living, reasonably certain of fulfilment because the table is not based upon theories or assumptions but upon facts verified by past experience. What is the probability that a person aged twenty-five will die in one year? If the number of possibilities is 89,032, that is the denominator of our fraction, and if past experience reflected by the table shows that 718 persons usually fulfil this condition by dying, 718 is the numerator. The probability of dying in one year is therefore 718/89,032 at this age, or about 8/1000. What is the chance that a person aged twenty-five will die within two years? It is 718 plus 718 (the number happening to be the same for the second year) over 89,032 or 1436/89032. It might also be expressed as 718/89032 plus 718/89032. The probability that a person aged thirty will die in two years is 1441/85441. Any conceivable probability of living or dying can be calculated from this table, covering one, two or more lives, and this demonstrates that insurance is not gambling as often supposed, but in fact is just the opposite, it being possible to prognosticate about groups of lives, although impossible for the individual life.

Compound interest.—A brief consideration of the factor of interest and we are ready to calculate the mortality cost on the different varieties of policies. In insurance the price is collected from the consumer in advance and he must be allowed interest by the company for the use of the money. The assumption made, which is not absolutely in accord with facts but near enough for all practical purposes, is that the premium is collected at the beginning of the year and the death claims paid at the end of the year. As a matter of fact, death claims are usually paid a few weeks after death, but as will be seen later this makes no appreciable difference to either contracting party. It is assumed, then, that the company has the use of the money for a period of time varying with the manner in which the premium is paid. In order to pay out one

dollar at the end of a year, therefore, it is only necessary for the company to collect at the beginning of the year a sum which, together with interest, will equal one dollar by the end of the year. Since we cannot predict what rate will be earned by the company on its funds we must assume a rate of interest, which must be a conservative one, so that the company does not anticipate doing what may later prove to be an impossibility. The rate now generally assumed and often prescribed by law is three per cent. In order to pay out one dollar in death claims at the end of the year it is necessary for the company to collect at the beginning of the year only $1.00/1.03 or $.9708, because a little figuring will show that this sum with interest at three per cent will equal $1 at the end of the year. To be fair we must allow the customer *compound* interest on his money; that is, if we have the use of his money for two years we must allow him interest on the principal for one year and interest on the principal *plus interest* for the second year, etc. In order to pay $1 at the end of two years it is necessary for the company to collect $1.00/1.0609 or $.9425, $1.0609 being $1 at three per cent compound interest for two years. To get the present value of a sum due at the end of any specified number of years, therefore, we can either divide it by the amount of $1 for a term of years at three per cent or multiply it by the discounted value of $1. A compound interest and compound discount table is given below:

INTEREST AND DISCOUNT TABLE

| *Years* | *Amount of* $1 *due at the end of a term of years at* 3 *per cent* | *Present worth of* $1 *due at the end of a term of years at* 3 *per cent* |
|---|---|---|
| 1 | $1.0300 | $.970874 |
| 2 | 1.0609 | .942596 |
| 3 | 1.0927 | .915142 |
| 4 | 1.1255 | .888487 |
| 5 | 1.1593 | .862609 |
| 6 | 1.1941 | .837484 |
| 7 | 1.2299 | .813092 |
| 9 | 1.2668 | .789409 |
| 8 | 1.3048 | .766417 |
| 10 | 1.3439 | .744094 |

Natural premium (five-year term policy).—We can now ascertain how the mortality cost is computed for a five-year term policy at age 25, using this simple type of policy for the first illustration. We will suppose that the premiums are collected

at the beginning of each year and that just enough is collected to meet the death claims of that year, a system known as the "natural premium plan." We can foresee from the table that the company must have at the end of the year $718,000 in order to pay $1,000 to the beneficiaries of each of those who die during the year. But since the premiums are collected at the beginning of the year the company need acquire at that time only that sum which, together with interest, will equal $718,000 by the end of the year. Dividing by $1.03, the amount of $1 at 3 per cent compound interest for one year, we reach the result $697,087.374. This amount must be collected at the beginning of the year from 89,032 persons insured, so that the amount from each person is approximately $7.83. The second year 718 persons will die, so that at the end of that year $718,000 must be on hand, and $697,087.374 at the beginning of the year must be collected. But as some of the original premium payers have died, at the beginning of the second year the company can collect from only 88,314 persons, making each person's contribution $7.89. For the third year we require $718,000; $697,087.374 must be collected at the beginning of the year from 87,596 persons, or $7.96 per person. For the fourth year $718,000 is required for death claims which will be furnished by $697,087.374 at the beginning of the year, or $8.02 per person. For the fifth year $719,000 is required, or $8.10 from each person insured at the beginning of the year. The following shows in tabular form the amount necessary at the end of each year and to be collected in total and per person at the beginning of each year:

FIVE YEAR TERM POLICY—NATURAL PREMIUM PLAN

| | *Total required by end of year* | *Total necessary at beginning of year* | *Premium at beginning of each year per person* |
|---|---|---|---|
| 1st year | $718,000.00 | $697,087.374 | 7.83 |
| 2nd year | 718,000.00 | 697,087.374 | 7.89 |
| 3rd year | 718,000.00 | 697,087.374 | 7.96 |
| 4th year | 718,000.00 | 697,087.374 | 8.02 |
| 5th year | 719,000.00 | 698,058.247 | 8.10 |

The following table shows the natural premiums at various ages on a 3 per cent and 3½ per cent basis:

NET NATURAL PREMIUM TO INSURE $1,000 ONE YEAR
AMERICAN EXPERIENCE TABLE

| *Age* | 3 *per cent* | 3½ *per cent* |
|---|---|---|
| 20 | $ 7.58 | $ 7.54 |
| 25 | 7.83 | 7.79 |
| 26 | 7.89 | 7.86 |
| 27 | 7.96 | 7.92 |
| 28 | 8.02 | 7.98 |
| 29 | 8.10 | 8.06 |
| 30 | 8.18 | 8.14 |
| 35 | 8.69 | 8.64 |
| 40 | 9.51 | 9.46 |
| 45 | 10.84 | 10.79 |
| 50 | 13.38 | 13.31 |
| 55 | 18.03 | 17.94 |
| 60 | 25.92 | 25.79 |
| 65 | 38.96 | 38.77 |
| 70 | 60.19 | 59.90 |
| 75 | 91.62 | 91.18 |
| 80 | 140.26 | 139.58 |
| 85 | 228.69 | 227.59 |

**Net single premium (five-year term policy).**—We have previously seen that there are various ways of paying premiums. If the above premiums had been collected from each person in full at the beginning of the five-year period (in the form of a "net single premium") it is plain that the total amount collected and the amount collected per person would be considerably smaller by reason of (1) the extra interest earned for the longer periods that many of the premiums would be on hand, and (2) the fact that the entire 89,032 persons would pay the single premium, whereas when the premiums are paid annually the number of premium payers is constantly being decreased by death. To calculate the cost per policy-holder if the premium is paid in a lump sum at the beginning of the period, let us refer again to the table immediately preceding. For the death claims due at the end of the first year, $697,087 .374 must be collected at the beginning of the five-year period because the money is in use by the company for one year. The funds for the second year's death claims, if collected at the beginning of the five-year period, will be in the hands of the company for two years and two years' interest may be reckoned on. The sum which will produce $718,000 (the second year's death claims) at 3 per cent compound interest for two years, is $718,000 divided by $1.0609 ($1 at compound interest for two years) or $676,783.856. To have the third year's death claims by the end of the third year, the company need collect

at the beginning of the period only $718,000 divided by $1.0927, or $657,071.704. Similar calculations for the fourth and fifth year's death claims are shown in the table below:

FIVE YEAR TERM POLICY—SINGLE PREMIUM PLAN

| | *Death Claims* | *Total Amount necessary at the beginning of the period* | *Amount per person* |
|---|---|---|---|
| 1st year | $ 718,000 | $ 697,087.374 | $ 7.83 |
| 2d year | 718,000 | 676,783.856 | 7.60 |
| 3d year | 718,000 | 657,071.704 | 7.38 |
| 4th year | 718,000 | 637,933.701 | 7.17 |
| 5th year | 719,000 | 620,215.748 | 6.97 |
| TOTAL | $3,591,000 | $3,289,092.380 | $36.94 |

Since we collect this total at the beginning of the period from every person insured, a division of the total by 89,032 shows that $36.94 per person is sufficient to cover the mortality cost.

The two plans of paying premiums we have been discussing, the natural-premium plan and the single-premium payment, are not plans in current use, because of very apparent defects. The natural premium is a constantly increasing amount, whereas a person's earning power very rarely continues to increase indefinitely. While mathematically quite feasible the plan is practically unadaptable to most persons' needs. The single premium is not desirable because the insured's means do not ordinarily permit of his paying the cost of insurance in a lump sum. A level or decreasing annual premium accords with the needs of the majority of persons but the level or decreasing annual premium is easily found from the net single premium. We will therefore continue to consider the net single premium for different types of policies and later translate these single premiums into practicable annual level premiums.

Net single premium (whole-life policy).—The uses of the term policy are limited and we will now consider the whole-life policy, which is much more commonly purchased. The same method of calculation may be used. Whereas under the term policy the company insures the person only for a term of five, ten or fifteen years, the whole-life contract insures the person as long as he lives. Since authenticated instances of longevity beyond 96 years are extremely rare, the table stops at age 96. The whole-life policy may therefore be regarded as a term policy for the length of life or up to age 96; in fact,

at age 96 the policy should be paid even if the person is still alive. The calculation of the single premium on a whole life policy taken at age 25 is shown in the accompanying table, only a few of the first and concluding calculations being given:

WHOLE LIFE POLICY—NET SINGLE PREMIUM PLAN

| *Year* | *Age* | *No. Dying* | *Death Claims* | *$1 at compound interest (3%)* | *Amount required at beginning of the period* |
|---|---|---|---|---|---|
| 1 | 25 | 718 | $718,000 | $1.0300 | $697,087.374 |
| 2 | 26 | 718 | 718,000 | 1.0609 | 676,783.856 |
| 3 | 27 | 718 | 718,000 | 1.0927 | 657,071.704 |
| 4 | 28 | 718 | 718,000 | 1.1255 | 637,933.701 |
| 5 | 29 | 719 | 719,000 | 1.1593 | 620,215.748 |
| .. | .. | ... | ..... | ..... | ..... |
| .. | .. | ... | ..... | ..... | ..... |
| .. | .. | ... | ..... | ..... | ..... |
| etc | etc | etc | etc | etc | etc |
| 68 | 93 | 58 | 58,000 | 7.4632 | 7,771,465 |
| 69 | 94 | 18 | 18,000 | 7.6870 | 2,341,616 |
| 70 | 95 | 3 | 3,000 | 7.9176 | 378,903 |
| 71 | 96 | 0 | 0 | 8.1551 | |
| | | | | Total..... | $31,711,417.76 |

Dividing the total $31,711,417.76 by the number of persons from whom it is to be collected at the beginning of the period, 89,032, gives the single premium per person as $356.18.

**Net single premium (endowment policy).**—We may now consider the endowment policy, which promises, for example, $1,000 upon death within a stipulated period, say twenty years, or $1,000 at the end of the period if the insured is still alive. Two probabilities are involved here, the chance of death and the chance of survival. Some of the insured will collect under one contingency and some under the other; in either event the insurance will be paid. We can compute the cost to the insurance company on the persons who live and the cost on those who die; the sum of these is the total cost of the insurance. Divided among the people alive at the beginning of the period, the net single premium for each person is obtained. The table on page 81 shows the calculation.

By analysis and the application of the same principles, the net single premium for any type of policy may be computed. A ten-payment life policy has the same *single* premium as an ordinary whole-life policy, because the present value of future death claims is the same, although an *annual* premium paid only

DEATH CLAIMS

| *Age* | *No. Living* | *No. Dying* | *Death Claims* | *$1 at Compound interest* | *Amount necessary at beginning of period* |
|---|---|---|---|---|---|
| 25 | 89,032 | 718 | $718,000 | $1.0300 | $ 697,087.374 |
| 26 | 88,314 | 718 | 718,000 | 1.0609 | 676,783.856 |
| 27 | 87,596 | 718 | 718,000 | 1.0927 | 657,071.704 |
| 28 | 86,878 | 718 | 718,000 | 1.1255 | 637,933.701 |
| 29 | 86,160 | 719 | 719,000 | 1.1593 | 620,215.748 |
| 30 | 85,441 | 720 | 720,000 | 1.1941 | 602,988.660 |
| 31 | 84,721 | 721 | 721,000 | 1.2299 | 586,239.007 |
| 32 | 84,000 | 723 | 723,000 | 1.2668 | 570,742.909 |
| 33 | 83,277 | 726 | 726,000 | 1.3048 | 556,418.582 |
| 34 | 82,551 | 729 | 729,000 | 1.3439 | 542,444.489 |
| 35 | 81,822 | 732 | 732,000 | 1.3842 | 528,812.398 |
| 36 | 81,090 | 737 | 737,000 | 1.4258 | 516,917.001 |
| 37 | 80,353 | 742 | 742,000 | 1.4685 | 505,265.894 |
| 38 | 79,611 | 749 | 749,000 | 1.5126 | 495,177.239 |
| 39 | 78,862 | 756 | 756,000 | 1.5580 | 485,247.634 |
| 40 | 78,106 | 765 | 765,000 | 1.6047 | 476,722.716 |
| 41 | 77,341 | 774 | 774,000 | 1.6528 | 468,282.732 |
| 42 | 76,567 | 785 | 785,000 | 1.7024 | 461,104.776 |
| 43 | 75,782 | 797 | 797,000 | 1.7535 | 454,517.973 |
| 44 | 74,985 | 812 | 812,000 | 1.8061 | 449,584.717 |
| TOTALS | | | $14,859,000 | | $10,989,549.109 |

MATURED ENDOWMENTS

| *Age* | *No. Living* | *Matured Endowments* | *$1 at compound interest* | *Amount necessary at beginning of period* |
|---|---|---|---|---|
| 25 | 89,032 | | | |
| 45 | 74,173 | $74,173,000 | $1.8061 | $41,067,792.146 |

SUMMARY

| | *Present Value* | *No. Alive* | *Net Single Premium* |
|---|---|---|---|
| Death Claims | $10,989,549.109 | 89,032 | 123.433 |
| Matured Endowments | 41,067.792.146 | 89,032 | 461.270 |
| | $52,057,341.255 | 89,032 | 584.703 |

ten times will be greater than an annual premium paid until death. An annuity is paid to those who live, so that the cost depends on those who live through each year, but otherwise the net single premium is calculated in the same manner. The premium on a child's endowment is figured as on other endowments, although if a promise is made to return the premiums paid should the child die, something must be added to cover the additional cost of this feature. Every insurance feature costs something, but this cost may always be calculated in advance by the principle of probability, the mortality table and the interest.

**Annual premiums.**—We may now consider how the single premium is translated into an annual or limited-payment premium. The calculation is simple. Divide the net single preium by the present value of an *annuity due* of $1 at the same age for the premium-paying period. To explain the rule we must consider the nature of an annuity due of $1 a year. An annuity due of $1 is $1 due at the beginning of the year and its present value is $1 divided by the amount of $1 at compound interest.

The net single premium on the five-year term policy issued at age 25 we calculated to be $36.95. The appropriate annuity due is an annuity due of $1 for five years (the premium paying period) beginning at age 25. Its present value would be found as follows:

| *Age* | *No. Living* | × *$1* | = | *Paid Each Year* | ÷ | *$1 at Compound Interest* | = | *Present Value* |
|---|---|---|---|---|---|---|---|---|
| 25 | 89,032 | $1 | | $89,032 | | $1.00 | | $ 89,032.000 |
| 26 | 88,314 | 1 | | 88,314 | | 1.03 | | 85,741.747 |
| 27 | 87,596 | 1 | | 87,596 | | 1.0609 | | 82,567.630 |
| 28 | 86,878 | 1 | | 86,878 | | 1.0927 | | 79,505.676 |
| 29 | 86,160 | 1 | | 86,160 | | 1.1255 | | 76,552.044 |
| | | | | | | TOTAL | | $413,399.097 |

Dividing by 89,032, the number of persons, we get $4.643 as its present value. The present value of five annual premiums of $1 must be equal to the net single premium, for considering interest and allowing for deaths, net single and net annual premiums are mathematically equivalent. The proposition may now be stated thus: If a net single premium of $4.643 is equivalent to five annual premiums of $1, a net single premium of $36.95 on a five-year term policy is equivalent to five annual premiums of how much? Evidently the quotient obtained by dividing $4.643 into the net single premium ($36.95), or $7.96. Thus the rule is obtained that the net annual level premium is found by dividing the net single premium by the present value of an annuity due. To repeat the thought in slightly different form, the net annual level premium is to the net single premium as a $1 premium is to the present value of five $1 premiums.

$$\frac{\text{Net annual level premium (?)}}{\text{Net Single Premium (\$36.95)}} = \frac{\text{\$1 annual level premium (\$1)}}{\text{Present value of five \$1 premiums (\$4.643)}}$$

or

$$\text{Net Single Premium (\$36.95)} \times \$1 = \text{Net annual level premium (?)} \times \text{Present value of five \$1 premiums (\$4.643)}$$

or

$$\frac{\text{N. S. P. (\$36.95)} \times \$1}{\text{P. V. of five \$1 premiums (\$4.643)}} = \text{Net annual level premium (\$7.96)}$$

In similar fashion we find the present value of a $1 annuity due *for the whole of life at age 25* to be $22.1044, and dividing this into the net single premium for a whole-life policy or $356.18 (See page 80) we find the net annual level premium to be $16.11. Suppose this life policy was paid for in ten annual payments, beginning at age 25 and ceasing after age 34. The annual level premium for this limited-payment policy would be found by dividing the net single premium by the present value of a ten-year annuity due at age 25 ($8.484), making the net level premium $41.98. For the twenty-year endowment at age 25, divide the net single premium of $584.71 by the present value of a twenty-year annuity due of $1 at age 25 ($14.258), making the net annual level premium $41.01.

**Expenses as an element of cost.**—The annual premiums above referred to are net and include no allowance for expenses.[2] Using the net annual level ordinary-life premium as an illustration, the expense allowance may be made by adding a fixed amount to the net premium, by adding to the net premium a percentage of itself, or by adding to the net premium both a fixed sum and a percentage of the premium. Let us see the effect of each of these methods and whether they are equitable as between (1) policies issued at different ages and (2) expensive and inexpensive policies.

Applying the method of adding a fixed sum to the net premium, gross premiums are found in the following way:

| *Whole-Life Policy, Age 25* | *Whole-Life Policy, Age 40* |
|---|---|
| Net Premium.....$16.11 | $24.75 |
| Plus Fixed Sum.... 4.03 | 4.03 |
| Gross Premium..$20.14 | $28.78 |

We see that the loading on the policy *issued* at age 25 is the same as on the policy *issued* at age 40, but the loading on

[2] For sample page of ratebook, showing gross rates, see Appendix VI.

the former is 20 per cent. of the gross premium, while the loading on the latter is 14 per cent. of the gross premium. If expenses do not vary in proportion to the premium the method is equitable; if expenses are greater on a high-premium policy than on a low-premium policy, the low-premium policy is discriminated against by this system.

Let us now examine the elements constituting the expenses of a life insurance company. They are as follows:

1. Cost of obtaining new business:... Principally consisting of the *commission* paid the agent, which is a percentage of the premium in nearly every case.
2. Cost of collections:..... The principal items being the *commissions* paid the agent for a period of years after the first, usually a percentage of the premium and *taxes,* which are often a percentage of premiums.
3. Settlement expenses:..... Principally *investigation* of claims and *legal expenses.* The size of the premium has no effect on these; but it obviously costs more to settle ten $1,000 claims than one, and more for a $10,000 policy than for a $1,000 policy.
4. General Expenses:..... *Salaries* and *clerical expense.* This varies with the amount of business done; it may be questioned whether it varies between policies of different sizes, but certainly is little affected by the size of the premium.
5. Investment Expenses:..... These are taken care of out of income on investments and so are not a factor in expense loading.

Summarizing, we see that new business and collection expenses vary with the premium, but that general and settlement expenses vary with the amount of the policy, irrespective of the size of the premium. The flat sum system of loading would be equitable as far as the latter two elements are concerned, but would penalize unjustly the lower-priced policies in regard to the former two elements. The percentage system would be justified by the former two elements but not by the latter. The percentage plan would work out as follows:

| | *Whole-Life Policy Age 25* | *20-Year Endowment Age 25* |
|---|---|---|
| Net Premium ..... | $16.11 | $41.01 |
| Plus 25 per cent of Net Premium..... | 4.03 | 10.25 |
| Gross Premiums ..... | $20.14 | $51.26 |

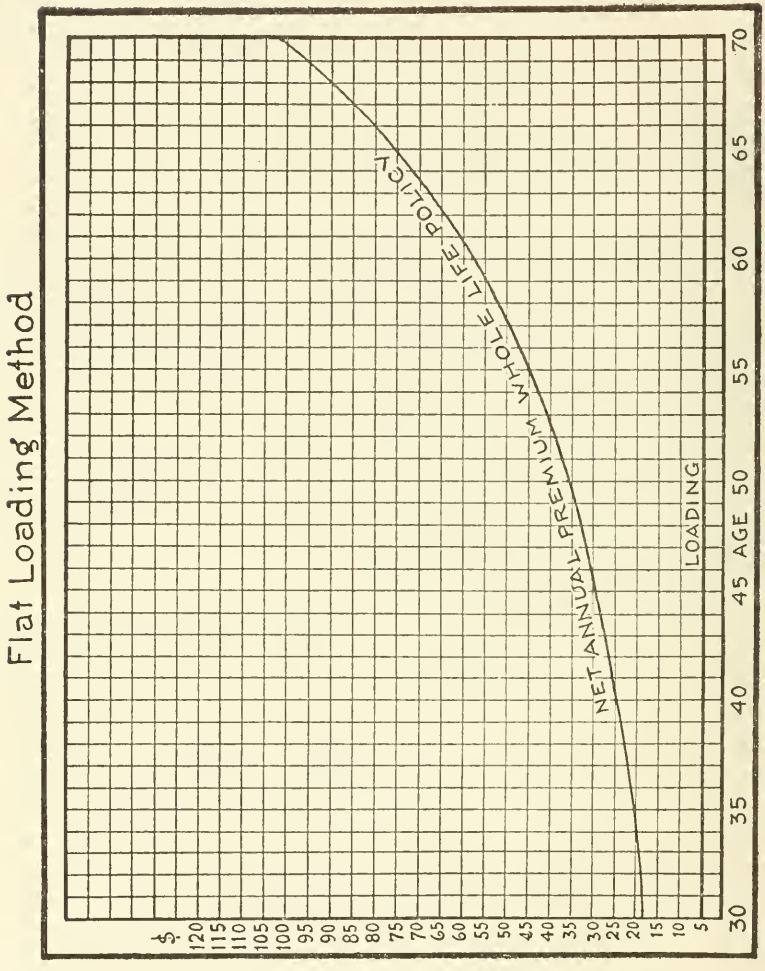
It is evident that equity will be served only by a combination of the flat sum and percentage methods, each of these logically taking care of two of the four expense elements. This system would be applied as follows:

| | *Term Age 25* | *Whole-Life Policy Age 25* | *20-Year Endowment Age 25* |
|---|---|---|---|
| Net Premium | $ 7.96 | $16.11 | $41.01 |
| Plus Flat Sum | 2.00 | 2.00 | 2.00 |
| Plus 12½% of Net Premium | 1.00 | 2.01 | 5.13 |
| Gross Premiums | $10.96 | $20.12 | $48.14 |

It is seen that here the loading increases as the premium increases, but not in the same proportion. A change from term to whole-life increases the premium 102 per cent and increases the loading only 33 per cent. The endowment net premium is 154 per cent greater than the whole-life premium, but the loading on the former is only 78 per cent greater than on the latter. The diagrams below show (1) the gross premiums and loading under the flat sum method, the former increasing and the latter stationary; (2) the gross premium and loading under the combination method, both increasing, but the former faster than the latter.

In addition to expenses the loading provides a margin for certain contingencies, such as where the interest earned proves less than the estimated three per cent., where the mortality exceeds that stated in the mortality table, where losses occur through the forfeiture or lapse of policies, and possibly where funds are required to provide or increase a dividend.

Another problem connected with loading is the difficulty of providing the funds required for expenses at the time they are to be spent. But the only practicable method of so providing involves temporary borrowing from the reserve, the discussion of which must be postponed until we have seen the object and nature of the latter. (See next chapter). Regulation by the State is concerned chiefly with this very phase of the subject. The law in reality prescribes, not the amount of loading, for this is regulated only by competition, but the amount of money collected for other purposes which may be borrowed to use for expenses during the early period when the expenses in connection with a particular policy are greater than the amounts derived from the loading.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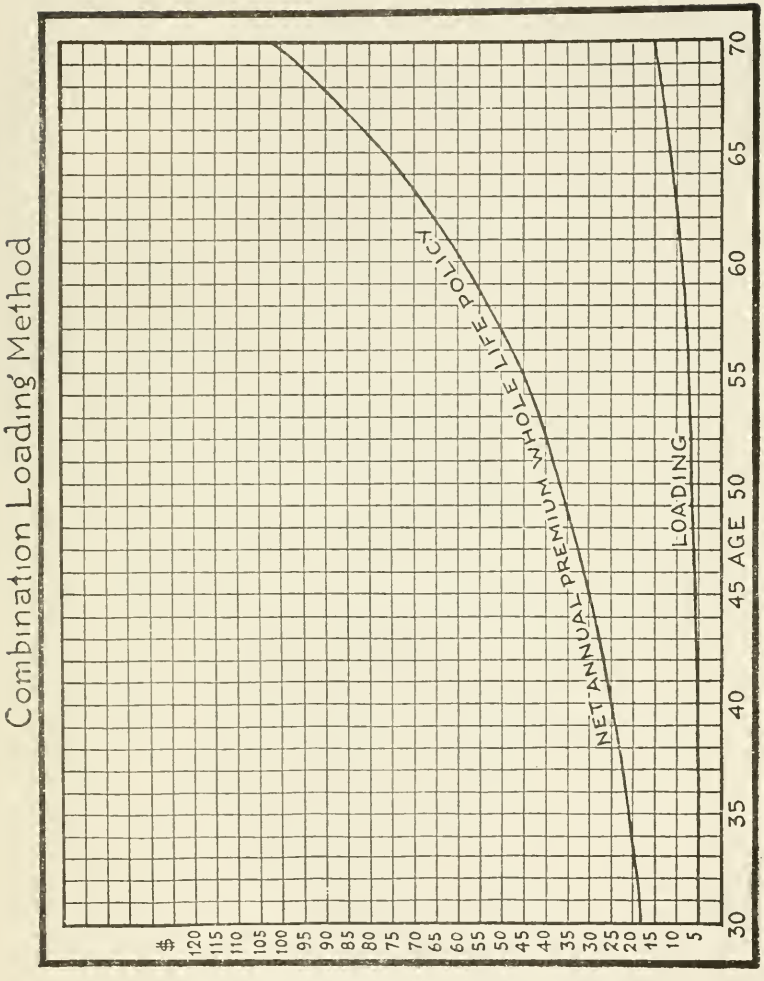
WHOLE LIFE POLICY
NET ANNUAL PREMIUM
LOADING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NET ANNUAL PREMIUM WHOLE LIFE POLICY
LOADING

In some States laws have been passed to regulate the extravagant race for new business in which some companies would otherwise be impelled to engage, entailing excessive commissions and expensive advertising. In New York, for example, this regulation was attempted by a law providing that increased amounts of insurance must be acquired at a decreasing rate of expense and new business became more and more difficult to secure.

## Chapter VII

# RESERVES, SURRENDER VALUES AND LOANS

**Reserves, surrender values and policy loans.**—These may well be considered in the same chapter because of their common origin and interrelations. The reserve is a fund that grows out of the premiums paid. The amount of this fund at any time depends on (1) the kind of policy, (2) the face of the policy, (3) the age of the insured at issuance, (4) the length of time the policy has been in force, and (5) the rate of interest assumed by the company. The amount of the surrender value differs from the reserve only to the extent of a small surrender charge, made to meet the expenses incidental to the surrendering of the policy. The policy loan value is usually the same as the cash surrender value except that in place of a surrender charge the loan bears a stipulated rate of interest.

**Effect of different kinds of premiums on the reserve.**—In order that the reserve may be clearly understood, a review of the different kinds of premiums is necessary. Life insurance may be purchased by natural, single, level or decreasing premiums. The natural premium is based on the mortality cost for one year at the age concerned and, with interest, is just sufficient to meet all death claims at the end of the year if the actual experience is the same as the expected experience. With increasing age the probability of dying becomes greater and the natural premiums must be increased to meet the larger number of death claims that will have to be paid, as shown on page 78. The increase is not uniform each year but is constantly accelerated until in the older ages it results in a premium that is prohibitive and impractical. This way of charging premiums is most frequently used in connection with the one-year renewable-term plan, which has an increasing step-rate premium. Since the sum on hand at the end of each year is sufficient to meet only the maturing policies there is no fund placed in reserve.

The single premium is exactly what its name implies, one premium of an amount which, when compounded at the assumed rate of interest, will be sufficient to meet all the losses and expenses that will ever be charged against the policy. One

lump sum thus paid has to be so large that it is even more impractical than the former method and, therefore, is rarely used. (See page 54)

When the same amount is deposited with the company each year during the premium-paying period of the policy we have what is called a level premium. This method is superior to either of the former because the premium is moderate and is never increased. The policy-holder, it will be noted, pays to the company a larger sum in the earlier years than is necessary to pay mortality costs. This difference, with compound interest, goes into a fund known as the reserve and takes care of the later years when the mortality cost has risen to exceed the amount of the level premium but at an age when a natural premium, as we have seen, would be so high as to be unattractive and almost impossible to collect. It is this level-premium idea, variously applied, which makes possible the many types of policies that are written. Under the decreasing-premium plan, which has never attained great popularity, the premium paid decreases with advancing age and the anticipated decline of the policy-holder's earning power.

It can be seen from this that a reserve will accumulate only under the single, level and decreasing premium plans, because under the natural-premium plan, while some infinitesimal reserve may exist during the year, at the end of the year it is exhausted by the death claims. In the case of a single premium the sum is increased each year by the interest, and then from this total the current mortality cost is deducted. The remainder is the reserve. This process is repeated year after year, the factor of interest making the reserve per policy grow larger and more rapidly, as shown in Table II.

The reserve per policy under the level premium plan is not so large at first, in actual amount, as under the single-premium plan, but grows with greater speed than the single-premium reserve, because it is increased each year, not only by the interest but also by the amount of the level premium, although reduced each year by its share of the matured policy claims.

The reserve on a group of policies and also on the individual policy on the ordinary-life plan, where premiums are paid for the whole of life, taken at age 21, is illustrated in Table I, where its operation may be traced.

It was assumed in this case that there were 91,914 persons insured on the ordinary-life plan at age 21, for $1,000 each,

## TABLE I.—AGGREGATE AND INDIVIDUAL TERMINAL RESERVES

American Experience 3½ Per Cent. Reserves. Ordinary Life. Age: 21

$1,000 Insurance. Net Annual Level Premium, $13.77

| (1) Year of Insurance | (2) Age Attained at Beginning of Insurance Year. | (3) Tabular Number Living at Beginning of Year. Equals Number Insured. | (4) Sum on Hand at End of Previous Year. Equals Aggregate Reserve. (See 10). | (5) Annual Premiums Paid at the Beginning of the Year. (3) × $13.7725 | (6) Total Sum on Hand at Beginning of Year | (7) Three and One-half Per Cent Interest for One Year on Sum in Column (6) | (8) Sum of Principal and Interest (6) + (7) | (9) Death Claims by Mortality Table Due at End of Year (Deduct) | (10) Remainder: Amount on Hand at End of Year After Payment of Death Claims (Equals Aggregate Reserves) | (11) Divide by Tabular Number Living at End of Year, Namely: | Result: Amount Held for Each Survivor at End of Year. Individual Reserve per $1,000 Insurance |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 21 | 91,914 | ..... | 1,265,885.565 | 1,265,885.565 | 44,305.994 | 1,310,191.559 | 722,000 | 588,191.559 | 91,192 | 6.45 |
| 2 | 22 | 91,192 | 588.191.559 | 1,255,941.820 | 1,844,133.379 | 64,544.668 | 1,908,678.047 | 721,000 | 1.187,678.047 | 90,471 | 13.13 |
| 3 | 23 | 90,471 | 1,187,678.048 | 1,246,011.847 | 2,433,689.895 | 85,179.146 | 2,518,869.041 | 720,000 | 1,798,869.041 | 89,751 | 20.04 |

This process is repeated year after year until age 96 is reached.

These figures are not carried to the exact fraction of a cent.

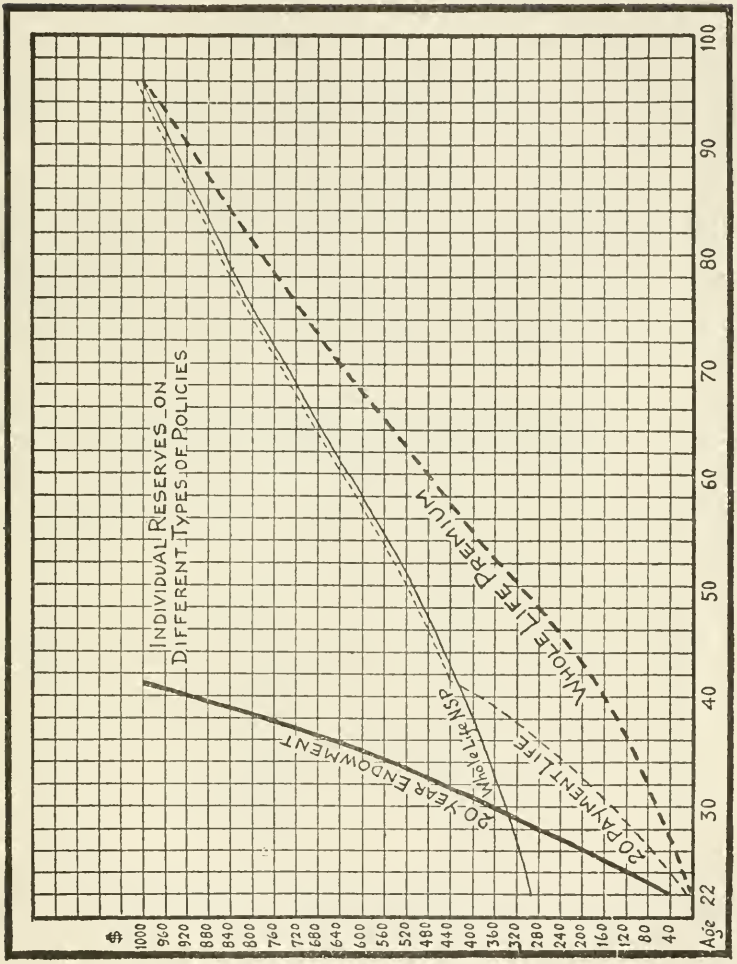
the net annual level premium at that age being $13.7725, according to the American Experience Table, and 3½ per cent. Since the assumption is that all premiums are paid at the beginning of the year, we have total premiums collected: 91,914× $13.7725, or $1,265,885.565. At 3½ per cent interest this amounts to $1,310,191.559 at the end of the year. However, 722 persons have died, and for calculation purposes it is assumed that all claims are paid at the end of the year. Therefore, $722,000 is deducted from the above total and we have $588,191.559 remaining. Since we began with 91,914 persons and 722 died during the year there are only 91,192 survivors. The sum now on hand belongs to these individuals, or approximately $6.45 per policy-holder.

The second year of the business 91,192 persons paid $13.7725 each, or $1,255,941.82. There was a reserve of $588,191.559 from the previous year, therefore the total on hand to start the new year is $1,844,133.38, and 3½ per cent interest is earned on this amount. Since 721 die this year, only $721,000 will be deducted at the end of the year, the remainder belonging to the surviving policy-holders. This operation is repeated year after year in the same manner until age 96 is reached, always keeping in mind the changing yearly mortality rate. While Table I shows the process by which the individual reserve grows, Table II shows the reserve increasing on individual policies of different types, the principle of obtaining them being the same as in Table I.

TABLE II—INDIVIDUAL TERMINAL RESERVES ON DIFFERENT KINDS OF POLICIES

Amount of Insurance $1,000. Age 21. American Experience Table of Mortality and 3½ per cent.

| *Year of Insurance* | *Whole-Life Net Single Premium* | *Whole-Life Annual Premiums* | *20-Payment Life* | *20-Year Endowment* |
|---|---|---|---|---|
| 1..... | $293.99 | $6.45 | $14.05 | $32.71 |
| 2..... | 298.73 | 13.13 | 28.65 | 66.78 |
| 3..... | 303.65 | 20.04 | 43.84 | 102.28 |
| 4..... | 308.73 | 27.21 | 59.64 | 139.27 |
| 5..... | 314.01 | 34.63 | 76.07 | 177.82 |
| 10..... | 343.28 | 75.82 | 168.60 | 396.43 |
| 15..... | 377.95 | 124.61 | 281.29 | 666.00 |
| 20..... | 418.69 | 181.94 | 418.69 | 1,000.00 |
| 25..... | 466.00 | 248.52 | 466.00 | |
| 30..... | 519.67 | 324.05 | 519.67 | |
| 40..... | 639.24 | 492.31 | 639.24 | |
| 60..... | 859.40 | 802.15 | 859.40 | |
| 75..... | 1,000.00 | 1,000.00 | 1,000.00 | |


INDIVIDUAL RESERVES ON DIFFERENT TYPES OF POLICIES
20-YEAR ENDOWMENT
Whole Life NSP
Whole Life Premium
WHOLE LIFE
20-PAYMENT LIFE
$
Age
1000
960
920
880
840
800
760
720
680
640
600
560
520
480
440
400
360
320
280
240
200
160
120
80
40
22
30
40
50
60
70
80
90
100

**Effect of interest rate on the reserve.**—Another factor affecting the size of the reserve is the rate of interest assumed by the company. The higher the rate of interest, the less it will be necessary to collect in the form of premiums because the interest will make up the difference. Since the premiums and the reserve vary inversely with the interest rate, the higher the interest assumption, the lower the reserve and the premium, and vice-versa. Thus where the interest rate is 3 per cent, the reserve at the end of the fifth year on an ordinary life policy issued at age 21 is $39.20. If 3½ per cent is the rate, the reserve would be $34.63, and if 4 per cent the reserve would be $30.60. A comparison of the reserves on these different assumptions is shown in Table III. It might be mentioned that the net level premiums on an ordinary-life policy issued at this age would be $14.72 when a 3 per cent table is used, $13.77 at 3½ per cent, and $13.24 at 4 per cent.

TABLE III—COMPARISON OF TERMINAL RESERVES ON ORDINARY-LIFE POLICIES OF $1,000 EACH AT AGE 21

American Experience Table of Mortality and Different Interest Rates

| *End of Policy Year* | *3 Per Cent* | *3½ Per Cent* | *4 Per Cent* |
|---|---|---|---|
| 1..... | $7.36 | $6.45 | $5.65 |
| 2..... | 14.95 | 13.13 | 11.53 |
| 3..... | 22.79 | 20.04 | 17.64 |
| 4..... | 30.86 | 27.21 | 23.99 |
| 5..... | 39.20 | 34.63 | 30.60 |
| 10..... | 84.91 | 75.82 | 67.70 |
| 15..... | 138.00 | 124.61 | 112.51 |
| 20..... | 199.17 | 181.94 | 166.17 |
| 30..... | 346.53 | 324.05 | 302.92 |
| 40..... | 515.49 | 492.31 | 470.02 |
| 60..... | 815.47 | 802.15 | 788.80 |
| 75..... | 1,000.00 | 1,000.00 | 1,000.00 |

This difference in interest assumptions is frequently lost sight of in making comparisons between the reserves, surrender values and loan values of different companies. Since these depend on the assumed rate of interest, fair comparisons are obviously made only where similar assumptions prevail. It is also evident that in a mutual company the reserve basis makes little difference to policy-holders collectively because, while a higher assumed interest rate enables lower premiums, other factors being equal, it implies the probability of smaller dividends.

**Size and importance of the reserve.**—This important fund, the reserve, is the backbone of the level-premium plan, although it has been the subject of attack by individuals and organizations who do not believe in a scientific method of conducting an insurance company and who see no reason for piling up a huge sum to take care of the future. State regulation has been necessary to safeguard it as a trust fund and to prevent its misuse, as it will be needed in the future to pay claims. If it were not for this supervision by the States many irregularities would follow, with consequent loss to beneficiaries. It can be seen that when a State charters or licenses a company to operate within its borders it must also supervise it, and in order to accomplish this the States require the insurance companies to file periodical reports with a designated public official, so that he can determine whether the company is being safely operated or not. A company to be solvent must at all times have enough in the reserve so that, supplemented by future premiums, it will be able to meet all future claims. A reserve sufficient to do this is also necessary in case a company wishes to go out of business and have its policies reinsured by another company.

The possession of this reserve makes life insurance companies important factors in the financial world. If the sums held as reserve by all life insurance companies were totaled they would reach nearly five billion dollars and any business that has at its disposal an amount of money as large as this necessarily exerts considerable financial influence. This reserve must be invested safely for the policy-holders in order that the assumed rate of interest may be earned and recognizing the character of the reserve the laws of the States have restricted the types of investments which may be made with this fund. Consequently, the bulk of it is invested in bonds and mortgages.

A better idea of the importance of the reserve in a life insurance company may be gained by comparing the amount of the reserve with the admitted assets. A recent balance sheet of one of the oldest and most reliable mutual companies is given below. Note that over four-fifths of its total admitted assets belongs to the policy-holders and is kept by the company in the form of reserve. This balance sheet will also serve to show the conservative nature of the securities in which the reserve is invested. The item "Legal Reserve" is down as a liability, the company recognizing that it is not their property

but that of the insured. Observe also other items such as "Contingency Reserve" and "Dividends Payable" which are held for the policy holders.

BALANCE SHEET

*Assets:*

| | |
|---|---|
| Real estate (including home office) | $4,111,455.84 |
| Loans on real estate mortgages | 199,503,024.62 |
| Loans on policies as collateral | 57,501,322.88 |
| Premium notes and automatic premium loans | 1,602,310.60 |
| Premiums deferred under Soldiers' and Sailors' Civil Relief Act | 8,509.25 |
| U. S. A. Bonds, amortized value | 33,085,979.02 |
| U. S. A. Certificates of Indebtedness | 11,850,000.00 |
| Other bonds, amortized value | 118,494,169.20 |
| Stocks, market value | 291,811.00 |
| Cash on hand and in banks | 2,005,322.11 |
| Interest and rents due and accrued | 6,753,525.71 |
| Due and deferred premiums | 5,778,040.30 |
| Assets not admitted—deducted | *123,694.78* |
| Total admitted assets | $440,861,775.75 |

*Liabilities:*

| | |
|---|---|
| Reserve required by law to be held on the company's policies | $387,890,303.00 |
| Reserve for annuities and special contracts | 2,417,236.00 |
| Present value of not due installments | 8,879,745.00 |
| [1]Losses and endowments, unadjusted, etc. | 1,529,498.06 |
| Estimated amount of taxes payable in 1920 | 1,468,432.47 |
| Unpaid accounts, medical fees, commissions, etc. | 284,761.39 |
| Dividends due and in course of payment | 1,033,985.97 |
| Deferred dividends payable in 1920 | 182,510.48 |
| Funds for deferred dividends payable after 1920 | 828,322.00 |
| Annual dividends payable in 1920 | 16,100,000.00 |
| Reserve for taxes in dispute | 500,000.00 |
| Reserved for contingencies | 19,746,981.38 |
| Total liabilities | $440,861,775.75 |

[1] Figures include $989,404.91 for death losses incurred of which no proofs have been received.

A statement of the income and disbursements of the same company for the same year, is given below. Only 15 per cent of the total income for the year was spent for operation. This contrasts sharply with industrial corporations, where the cost of operation is usually at least 85 per cent of the income. This, of course, is due to the very nature of the life insurance business.

STATEMENT OF INCOME AND DISBURSEMENTS

*Income:*

| | |
|---|---|
| Premiums | $64,693,729.07 |
| Interest | 20,156,307.29 |
| Rents | 363,488.52 |
| Consideration for installment and option settlements | 2,017,920.35 |
| All other income | 331,272.48 |
| Total income | $87,562,717.71 |

*Disbursements:*

| | |
|---|---|
| Death claims | $19,171,216.98 |
| Matured endowments | 8,157,265.48 |
| Annuities | 254,811.34 |
| Surrendered policies | 6,529,618.52 |
| Dividends to policy-holders | 14,726,708.36 |
| Disability claims | 797.56 |
| Total paid policy-holders | $48,840,418.24 |
| Taxes | 1,766,887.09 |
| Commissions to agents | 7,936,549.38 |
| Medical examinations, etc. | 413,763.43 |
| Salaries of officers, trustees, and home office employees | 1,135,683.43 |
| Rent for occupancy of home office | 270,000.00 |
| All other disbursements | 2,000,762.55 |
| Total disbursements | $62,364,064.12 |

From the standpoint of the individual policy-holder the reserve is his savings fund on which he is receiving interest. If he needs cash it is the basis of the sum he may borrow or receive as a cash surrender value from the company; if he lapses, it may be used to purchase paid-up insurance, or extended insurance; if he wishes to convert the policy, it determines the additional amount he will have to pay, in the form of a premium, or how much will be returned to him, depending upon whether the conversion is to a policy with a higher or lower premium. Just how rapidly this fund increases was illustrated in Table II, which shows the terminal reserve on individual policies.

**Calculation of the reserve.**—There are several ways of calculating the reserve of an insurance company, the most common being known as the prospective method. It is this system that is used by the States in order to ascertain solvency. It is necessary to assume a mortality table and also an expected rate of interest, the American Experience Table of Mortality is the one generally employed and three and one-half per cent is the usual interest rate assumption. Taking these as the bases of calculation, the present value of all future death claims is

estimated. This will be recognized as exactly the same as the total of the net single premiums on all the policies at the attained ages, and from this sum is deducted the present value of all future premium payments. The result is known as the prospective reserve. And possibly here is the best point at which to give a definition of the legal or required reserve. It is that amount which, if added to the present value of future premium payments, will equal the present value of future death claims. Anticipating what will happen, regardless of what has happened, it is called the prospective reserve. In the form of an equation, it may be expressed as:

Reserve + Future Premiums = Future Death Claims
or, transposing terms,

Reserve = Future Death Claims — Future Premiums, which, allowing for interest to be earned, becomes

$$\text{Reserve} = \left\{\begin{matrix}\text{Present Value of} \\ \text{Future Death Claims}\end{matrix}\right\} - \left\{\begin{matrix}\text{Present Value of} \\ \text{Future Premiums}\end{matrix}\right\}$$

For illustration purposes suppose that it is desired to find the net terminal reserve at end of age 93 on a whole life policy issued at age 21. The present value of the future death claims at the end of age 93 is found to be

| *Age* | *No. Dying* | *Death Claims* | *Present Value* | *Per Policy* |
|---|---|---|---|---|
| 94..... | 18 | 18,000 | 17,391.29 | 961.52 |
| 95..... | 3 | 3,000 | 2,800.50 | |

The present value of the future premiums is found to be

| *Age* | *No. Living* | *Premiums* | *Present Value* | *Per Policy* |
|---|---|---|---|---|
| 95..... | 3 | 41.31 | 39.91 | 15.67 |
| 94..... | 21 | 289.17 | 289.17 | |

The difference between $961.52 and $15.67, or $945.85, is the reserve. A less tedious operation is possible. The present value of future premiums will be recognized as equal to the net single premium at age 94, since this is the amount which with interest would cover such claims. The present value of future premiums of one dollar is the present value of an annuity due, or at this age, $1.1380, and since we know the net annual level premium on this policy to be $13.77 we multiply the present value of an annuity due of $1 or $1.1380 by $13.77, giving the present value of future premiums as $15.67. This, deducted from the present value of future death claims (which are al-

ways equivalent to the net single premium at the attained age) gives the reserve as $945.85.

In the form of an equation, it will appear as:

$$\text{Reserve} = \left\{\begin{matrix}\text{Net Single Premium} \\ \text{at attained age}\end{matrix}\right\} - \left\{\begin{matrix}\text{Present Value of} \\ \text{\$1 annuity due}\end{matrix} \times \begin{matrix}\text{Net Annual Level} \\ \text{Premium}\end{matrix}\right\}$$

The net single premium at age 94 is $961.52 and the present value of an annuity due of $1 at that age is $1.138. Since $13.77 is the level premium on the policy which was taken at age 21, the reserve at 94 is $961.52—($1.138×$13.77), or $945.85.

If the amount held as reserve by the company is equal to, or more than, the sum mentioned as "that sum" in the definition, then the company is solvent. Less than that, however, means that the company is insolvent and that it is time for the State to adjust its affairs, because at the present rate it will not have sufficient on hand to meet its future liabilities.

Another way of looking at the reserve is as surplus premiums collected, the operation of the method being shown in Table I. It is known as the "retrospective reserve," because it is found by looking back over the results of the past. To calculate this reserve it is merely necessary to find the past premiums collected plus interest thereon and substract from that past death claims. The resulting amount will be the actual amount on hand.

Expressed in the form of an equation:-

$$\left\{\begin{matrix}\text{Past Premiums} \\ \text{with Interest}\end{matrix}\right\} - \left\{\begin{matrix}\text{Past Death Claims} \\ \text{with Interest}\end{matrix}\right\} = \text{Reserve}$$

Obviously, if the premiums are improperly small or the claims unusually large the reserve will be inadequate and below the sum reached by the prospective method. The latter is superior in that, regardless of what has happened, it stipulates the sum required to meet future conditions.

The application of the prospective reserve principle to the actual or retrospective reserve tests its adequacy. If the actual experience and the expected are the same, then the prospective and retrospective reserve will coincide. Let us test the reserve as shown in Table I at the end of the third year by the prospective method. The retrospective reserve of $20.04 should be "that amount" which if added to future premiums will equal future death claims. The present value of future

death claims at age 24 is $303.6499, which is the same as the net single premium at that age. There are 89,751 in the group; therefore, the total of the net single premiums would be $27,252,882.1749. The present value of the future premiums can be found by multiplying the annual premium ($13.7725), which these persons are paying, by the discounted value of the probability of collecting it. This is, of course, the same as the present value of a life annuity due of $1, which we find at age 24 on a 3½ per cent basis to be $20.5922. Multiplying $13.7725 by $20.5922, we have $283.60607, which is the present value of future premiums on one policy. Since there are 89,751 such policies, the present value of the future premiums on all policies is $25,453,928.388. Deducting this from the present value of future death claims, we have $1,798,953.78, which is "that amount" which the insurance company should hold as legal reserve in order to be solvent. The sum actually on hand is slightly less than this due to not carrying all decimals sufficiently far.

**Special methods of valuing the reserve.**—It has been explained that the reserve is a trust fund required by law to be on hand at all times. But it is possible to evade this requirement by a mathematical subterfuge which makes a portion of the reserve available for expenses. This evasion is tacitly recognized by the laws of many States because of its necessity. We have previously referred briefly to the difficulty of providing funds for expenses at the time required. We are now in a position to see the various methods by which this difficulty may be met.

In one company the gross premium on a whole life policy at age 35 is $27.00, and the net premium $21.08, leaving $5.92 available for expenses. We may easily assume that this is sufficient to cover annual collection costs and general expense, leaving a margin for the payment of settlement expense at maturity. But it is estimated that the total cost of new business is around 80 per cent of the premium or about $16.86, of which a large part is the commission to the agent. Where is this sum to come from? In a large and old company it may be borrowed from surplus but in a young, small company this source is not available. The other possibilities are:

1. To charge an initiation fee or specially large first-year premium. But this is a violation of the level-premium idea and necessitates a difficult explanation to the insured.

2. To borrow funds which would otherwise be devoted to

paying surrender values and dividends. But this is precluded by the necessity of maintaining a consistent dividend policy and reasonable surrender values. The latter, as stated, is regulated in some States.

3. These difficulties are further complicated by the necessity of meeting competition.

There remains the reserve, if some method of legally borrowing from it can be devised. Three methods have been used which will be described in the order of their effect on the reserve.

1. The preliminary term plan. Under this plan the first year of the policy's term is considered as term insurance; the policy then goes into effect in its own name at an age one year higher and for a term one year less. Take, for example, a twenty-payment life policy at age 35 with a net premium of $29.85. Of this, on a 3 per cent basis, $22.00 should be in the reserve at the end of the first year. But consider this as a one-year term policy plus a nineteen-payment life policy and the reserve at the end of the first year is zero. The full net legal reserve the second year is $44.72, while the reserve at the end of the first year on a 19-payment life policy issued at age 36 (i. e., preliminary term plan) is $23.54. As the years elapse the preliminary term reserve catches up to the full reserve until, as shown in the following table, by the end of the twentieth year the reserves are the same.

TABLE IV—PRELIMINARY TERM RESERVE ON A 20-PAYMENT LIFE POLICY

Amount of $1,000. Age 35. American Experience Table and 3 Per Cent

| *End of Policy Year* | *Full Net Reserve* | *Preliminary Term Reserve* |
|---|---|---|
| 1 | $22.00 | ..... |
| 2 | 44.72 | $23.54 |
| 3 | 68.20 | 47.87 |
| 4 | 92.46 | 73.00 |
| 5 | 117.52 | 98.96 |
| 10 | 255.78 | 242.28 |
| 15 | 418.33 | 410.90 |
| 20 | 609.92 | 609.92 |

If death does not occur until after the twentieth year, there is obviously no difference in the two plans. If, however, death occurs prior to that time, the reserve of the individual policyholder does not contribute to the extent it should and the funds must be procured elsewhere.

2. The modified preliminary term plan. Instead of allowing the entire reserve on a policy to be freed for use as expenses during the first year, only the reserve on an ordinary life policy may be so used. Thus, the full net reserve (3 per cent basis) on a twenty-year endowment policy issued at age 35 would be $34.59 at the end of the first year. The reserve on an ordinary-life policy is $22.00, and this may be borrowed, leaving $12.59 in the reserve. The reserve under this plan in like manner gradually approaches the full net reserve and equals it at the end of the twentieth year, but the deficiency is never as great as under the full preliminary term plan. An important variation of this method of valuation is to use the 20 payment life policy as the basis of calculation in place of the ordinary life.

3. Select and ultimate method. The mortality table deaths are in excess of the actual deaths for the first few years of the policy by reason of medical selection and by this method the company is permitted to discount this saving in advance. The benefits of medical selection are presumed to endure for five years, the mortality the first year being 50 per cent of the tabular or expected mortality, the second year's mortality 65 per cent, the third year's mortality 75 per cent, the fourth year's mortality 85 per cent and the fifth year's mortality 95 per cent of expected. These savings the company may anticipate and borrow from the reserve. Thus, on the twenty-year endowment above mentioned, the full net reserve at the end of the first year is $34.59, but $6.24 may be used, leaving $28.35 in the reserve. The following table will show that by the end of the fifth year, the savings having been exhausted, the reserve on the select and ultimate plan equals the full net reserve.

TABLE V—SELECT AND ULTIMATE RESERVE ON A 20-YEAR ENDOWMENT POLICY

Amount $1,000. Age 35. American Experience Table and 3 Per Cent

| *End of Policy Year* | *Full Net Reserve* | *Select and Ultimate Reserve* |
|---|---|---|
| 1 | $34.59 | $28.35 |
| 2 | 70.40 | 66.92 |
| 3 | 107.50 | 105.93 |
| 4 | 145.91 | 145.50 |
| 5 | 185.71 | 185.71 |

The stricter laws authorize valuation on the select and ultimate basis and this is sufficient for older companies. In the

Middle West, where many young companies have been organized in the past few years, the laws permit the preliminary term plans and there has been some agitation in the Middle Atlantic States recently to recognize the preliminary term plan. It must be clearly understood that the above statements are neither direct nor implied reflections upon the standing of any company, for practical solvency depends upon ability to pay claims when due and not upon the possession at any given moment of funds segregated for a particular purpose, although some may consider the latter as a partial index of the condition of a company. To the writer's knowledge there has never been a failure of any company that is traceable to the use of the preliminary term plan.

**Cash surrender values and surrender charges.**—Many policies do not remain in force for the period for which they were originally intended. Through carelessness, misunderstanding and necessity there are numerous surrenders and lapses every year. It has been found, however, that in case of withdrawal it is not necessary for a policy-holder to forfeit everything he has paid into the company. As previously stated, the reserve is the basis of the surrender value and the company stipulates in the policy the amount of the reserve in the form of annual values that will be returned to the insured if he no longer desires to keep the policy in force. The amount he is thus able to secure is known as the "Cash Surrender Value".[1]

No reserve or surrender value is usually available to the insured until the end of the second or third year of the policy, largely due to the original commission, medical examination, and other expenses of a new policy. However, the surrender value continues to grow with the reserve, until at the end of the 5th, 10th, 15th or 20th year the full legal reserve and the surrender value coincide, as shown in Table VI. The practice varies considerably among the different companies and in some instances the cash value corresponds to the reserve at the end of the third year. It should be mentioned, however, that where this is the case those who withdraw in the early years of the policy are not contributing their share of the expenses of the business.

[1] For table of surrender values see the policy in Appendix III. Also Table VI, p. 104.

TABLE VI—ORDINARY-LIFE POLICY CASH AND LOAN VALUES COMPARED WITH FULL NET RESERVE

Age 25. Annual Premium $20.55. American Experience Table and 3 Per Cent

| *Full Net Reserve* | *End of Year* | *Cash and Loan Values of an Old Line Company* |
|---|---|---|
| $8.60 | 1 | ..... |
| 17.47 | 2 | $7.47 |
| 26.61 | 3 | 16.61 |
| 36.04 | 4 | 26.04 |
| 45.76 | 5 | 35.76 |
| 55.77 | 6 | 46.77 |
| 66.09 | 7 | 58.09 |
| 76.72 | 8 | 69.72 |
| 87.67 | 9 | 81.67 |
| 98.94 | 10 | 93.94 |
| 110.55 | 11 | 106.55 |
| 122.49 | 12 | 119.49 |
| 134.77 | 13 | 132.77 |
| 147.39 | 14 | 146.39 |
| 160.36 | 15 | 160.36 |
| 173.67 | 16 | 173.67 |
| 187.34 | 17 | 187.34 |
| 201.37 | 18 | 201.37 |
| 215.77 | 19 | 215.77 |
| 230.50 | 20 | 230.50 |

A nominal surrender charge is frequently made, seldom exceeding $10 per $1,000 of insurance and often on a graduated scale, decreasing as the policy becomes older. The charge is justified on three grounds. (1) The expenses incidental to the surrendering of the policy should not be borne by the remaining policy-holders; (2) the company incurs the expense of replacing a policy in the group for the one that has been lost; and (3) the best medical risks voluntarily withdraw and this results in an adverse mortality selection. There can be little doubt as to the accuracy of the first two but the last has not been definitely established. As to the insured, it would seem that the best reason for such a charge is the discouragement of unnecessary surrenders. The amount of the charge has been a subject of State regulation, referred to more fully at the end of this chapter.

**Development and use of the "cash value" clause.**—The insurance companies have not always guaranteed surrender values; in fact, there was a time when the lapsing of a policy meant the forfeiture of all rights thereunder. This, as we have seen, was unfair to the retiring member and some of the companies consequently granted cash surrender values voluntarily. This was followed by the so-called non-forfeiture laws

which make such values obligatory, except for term insurance. None of these laws require a cash value prior to the third year but there are no restrictions if a company desires to grant it earlier. As a result the tendency of recent years has been the opposite of the early days of life insurance and in their rivalry for business the companies have sought to outdo each other in the liberality of their surrender values. While there is no doubt that a cash surrender value is not only a privilege but a right of the insured, the use of it should be confined to cases of absolute necessity. Too often it has led to unnecessary forfeitures of policies and irreplaceable loss of protection. Nor has education as to the purpose of the policy served to lessen forfeitures. In fact, they have grown at an alarming rate. Some idea of the extent of this practice is shown by a comparison of the ways in which policies are terminated. In a representative year, of all the policies written off, about one-third in number and one-fourth in amount are surrendered. An effort has been made by some of the companies to check this by requiring a sixty or ninety-day notice. But as long as liberality in this respect is used as a selling point it is doubtful if much can be accomplished.

Other guaranteed value options.—Besides the privilege of securing the cash value of the policy by surrendering it to the company there are other options left to the insured if he no longer desires to pay premiums. The two most commonly found are those granting extended term insurance and paid-up insurance. These are usually stipulated in the non-forfeiture laws in case of lapse. Extended insurance means that the full amount of the policy will remain in force for such period of time as the surrender value will purchase term insurance if used as a net single premium at the attained age. This privilege was the first development in guaranteed values, the first to be required under non-forfeiture laws, and it is also the provision which is usually automatic in case of lapse. Paid-up insurance means that the surrender value may be used to change the policy to one that is fully paid, of an amount which the surrender value used as a net single premium will purchase at the attained age. Besides the options mentioned above annuities of various kinds are sometimes procurable by the surrender value used as a net single premium. In general the insured may use the surrender value of his policy as a net single premium to buy whatever the insurance company has for sale.

**Policy loans described.**—Originally policy loans were the result of voluntary concessions by the company, available only to temporarily pay premiums and seldom for more than two or three months. Competition has promoted promiscuous borrowing, regardless of the purpose, and any amount up to the cash surrender value can usually now be secured.[2] A specified rate of interest, not exceeding five or six per cent, is usually charged either until the loan is repaid by the insured or the policy matures, in which latter case the loan will be deducted from the proceeds along with any accrued interest. Interest is usually paid in advance and frequently the surrender value may be borrowed as of the end of the next succeeding year if the premium and one year's interest on the loan have been paid.[3]

**Extent and nature of policy loans.**—The extent to which this privilege is used can be understood when it is said that nearly one-fifth of the reserves of the insurance companies are invested in policy loans. This has been the subject of much criticism, since it is maintained that insurance companies were not originally intended to perform the functions of banks. During the last score of years the percentage of reserves invested in policy loans has steadily increased, the year 1919, however, being an exception, as there was actually a decrease during that year. At the end of 1918 the outstanding policy loans for all the companies licensed to do business in the State of New York were $713,087,000, which was decreased to $697,446,000 in 1919. It is claimed this decrease was due to the unusual prosperity during that year and it is expected that a period of financial stringency will again increase the loans. One of the greatest reasons for these large policy loans is the exploitation of this privilege as a competitive selling point. Some companies have attempted to discourage policy loans by requiring sixty or ninety-day notices and while this may act as a deterrent, the only real solution to the problem is to educate the policy-holders in this respect. Too few realize that when they borrow on their policy they are leaving a legacy of debt to the beneficiaries.

**Advantages and disadvantages of policy loans.**—As a general proposition the loan provision is bad for both insurer and insured, although there are exceptions. For example, in times

[2] For examples of loan values see the policy in Appendix III and also Table VI, p. 104.

[3] For provisions see policy in Appendix III.

of financial stringency loans on life insurance policies have prevented financial embarrassment and possible bankruptcy. The availability of such sums is also advantageous when a rare opportunity for wise investment presents itself. Furthermore, many persons take insurance only because of this feature and otherwise might not procure protection.

The objections to policy loans are more numerous than the advantages. First, it reduces the amount of the insurance carried by the individual, since the loan plus any accrued interest will be deducted from the proceeds of the policy. Second, the insurance companies, realizing that these loans are in most cases demand liabilities, have to carry large amounts of cash and other liquid assets, resulting in a lower interest return on the investments. Third, the time when loans are greatest is during a panic period. This naturally is the poorest time to liquidate investments and the company sustains an additional loss. Fourth, the effect on lapses appears very serious, when the high percentage of the reserve loaned to the policy-holders is realized and when it is further noted that the majority of borrowers cease paying before the maturity of their policies. It might be mentioned in this connection that only about eight per cent of the loans are ever repaid before the maturity of the policy. Fifth, it is sometimes argued that this lapsing, which is traceable to loans, also results in an adverse mortality selection, on the assumption that the group that borrows and later lapses consists of the best risks physically. As in the case of the cash surrender value, the accuracy of this argument is difficult to prove. It is, however, reasonable to assume that the poorer risks do not take the chances of surrendering insurance that the best risks are willing to take.

When policy loans are allowed to run and the interest accrues for a considerable length of time it is not a very attractive financial proposition to pay up. Therefore it has become quite customary to cancel the old policy and secure a new one. This often involves difficulties because of inability to pass the required medical examination. It is evident that policy loans are frequently disastrous and consequently should be discouraged in most cases.

State supervision.—We have seen in this chapter that one of the most important functions of a life insurance company is to keep intact the large reserve fund which has been intrusted to it. In order that the great mass of people, to whom this reserve

belongs, may be sufficiently protected, the several States have passed insurance laws. Supplemental insurance incorporation laws make requirements much more rigid than those specified in general incorporation laws. When a life insurance company is organized a common requirement is the deposit of from one to two hundred thousand dollars worth of approved securities with the State, which is to act as a guarantee fund. A maximum rate of dividend which the stock-holders may receive is frequently specified. The company must also agree to furnish certain statements, permit examinations, put certain provisions in their policies and comply with numerous regulations. The necessity for these arises from the fiduciary relationship of the company to the insured. Not only is the company itself affected but the actions of insurance agents and brokers are also regulated by law, particularly as regards representations concerning the relative merits of different companies, the "twisting" of policies and prospective dividends.

In order further to safeguard the interests of the policy-holders the manner in which the reserve may be invested is usually specified by statute. The different classes of securities in which they may place their assets are grouped below in the order of their freedom from restriction:

1. Issues of the Federal Government.
2. Bonds of States, counties, and municipalities, if their record is satisfactory.
3. Ordinary corporation bonds, where there has been no default of interest.
4. Real estate and farm loan mortgages on property worth twice the loan.
5. Real estate for the use of the business only.
6. Other property if acquired through foreclosure or as security for a loan.
7. Stocks of dividend-paying corporations.

Annual detailed statements of these investments are furnished to the proper state officials.

Not only is the safety of the reserve carefully guarded but the manner in which it is to be used in case a policy is surrendered is specified. In most States the minimum amount of cash surrender value is stipulated although all good and reliable companies actually grant more than this minimum. The New York law is typical, requiring a cash surrender value after the policy has been

in force for three full years, the minimum to be the reserve on such policy computed according to the standard adopted by the company, together with the value of any dividend additions to the policy, after deducting any indebtedness to the company and one-fifth of the entire reserve, or the sum of two and fifty one-hundredths dollars for each $100 of the face of the policy, if the latter is more than said one-fifth. As was previously mentioned, this sum can be used in various ways and does not have to be taken in the form of cash.

While the non-forfeiture laws compel the companies to grant surrender values, they do not require them to make loans and to keep the face of the policy in force. Therefore the loan feature may be called gratuitous on the part of the insurer. While the policy-loan provision is largely a selling point and the result of competition, there is no doubt that it is better in many cases than the surrender. For it is possible to secure approximately the same amount through a cash loan as through surrender, and, further, when the policy is surrendered, the insurance is cancelled and probably lost forever, while under the loan the insurance stays in force subject to the deduction of the amount of the loan in case of death or maturity prior to repayment.

There are many other State regulations of vital interest to the insured, especially those pertaining to dividends, which will be referred to in the next chapter.

## Chapter VIII

## SURPLUS AND DIVIDENDS

**The origin of the surplus.**—The premiums paid on policies take care of the death claims and the reserve.[1] In fact, the net premium as calculated is usually more than sufficient to meet these items, much of the excess being due to a low interest rate assumption and the extensive use of the American Experience Table of Mortality, which overestimates the deaths in early years. Morever, the allowance which is added to the net premium in the form of loading for expenses is frequently excessive. As prudent managers the companies have underestimated their income and overestimated their future liabilities. Therefore after all the items of expense, cost of mortality, and reserve are taken care of, there is usually a sum remaining which is known as the "surplus."

**Participating and non-participating policies.**—In a mutual company all of this surplus belongs to the policy-holders but in a stock company, if the dividend is not limited, a considerable portion may go to the stockholders. Policies are therefore designated as participating and non-participating, having reference to whether or not they share in the profits. The policy-holder is in the position of a consumer who may deal either with a profit-making or a co-operative store. As the mutual idea has gained headway many stock companies have mutualized and most of those that have not also write participating business. The result is that nearly all policies now being written are really profit-sharing. The theory of the participating business is that more than sufficient will be charged to meet anticipated cost and expense, and that after the actual cost has been definitely ascertained any surplus will be returned to the policy-holders in the form of a dividend. On the other hand, the non-participating business discounts or anticipates the future dividends and consequently charges a lower initial premium. However, it has been demonstrated that the premium on a participating policy in a good mutual will, in the course of time, be reduced by divi-

[1] Except those on the natural premium plan.

dends to less than the non-participating premium and that the net cost in a long life is lower than on the non-participating policy. The latter may have other advantages which at least partially offset this. Lastly, we have the gain from forfeitures. As mentioned before, many companies do not grant surrender values until the end of the third policy year and if a policy is lapsed during that period the reserve is withheld by the companies. Since the greatest number of lapses occur in the first few years of the life of the policy it will be seen that in the majority of cases the company retains a considerable sum, a portion of which is saving. Against this, however, the heavy expenses of the early years must be charged. It has been argued that those who lapse are a select group and therefore cause an adverse mortality selection which offsets the apparent gain, but this is not borne out by the statistics of some of the reliable companies. The second argument against this item as a gain is that a policy has been lost and must be replaced, which will mean expense. This of course is a valid argument.

**Apportionment of surplus.**—A surplus having been earned, some disposition of it must be made. In participating insurance it belongs to the policy-holders; in non-participating the stockholders get it. How to divide it among stockholders is not much of a problem, but since most insurance is written on the participating plan, the important and difficult problem is to apportion it equitably among the policy-holders.

The method of apportioning the surplus most commonly in use is known as the "contribution plan." It is assumed in this plan that a policy should receive as it has contributed. In order to attain this result the policy is credited with (1) the terminal reserve of the previous year, because this belongs to it, as indicated in Chapter VI; (2) the premium of the year just ended, since the policy must contribute this to the funds available for death claims and reserve; (3) interest on the reserve and premiums, since the company has had the use of the money. It is charged with (1) the policy's share of actual expenses; (2) actual mortality cost for the year; and (3) terminal reserve as of the end of the current year. The balance to the credit of the policy is surplus. It is evident that to keep a separate account for every policy would be a gigantic task. It is possible, however, to keep an account for each class and age of policy: as, for instance, endowments, whole-life

term, etc.; policies of each kind issued in 1904, 1905, etc.; policies of each kind segregated according to age at issue. To go further than this would be to increase the expense beyond the benefit to be gained. The system may be compared to the accounts of a commission agent who has so large a number of consignors that it is possible to do substantial justice by classifying them into groups according to the character of product and size of account, and who pays interest upon sums left with him on deposit.

It can be seen, however, that a number of problems present themselves in working out the items of this account. General expenses can be charged fairly equitably on the basis of $1,000 of insurance but when it comes to the cost of getting the business it is very difficult to decide whether the new or the old policies should bear this. To complicate the problem still more, the equity of different types of policies presents itself. Distribution of interest earnings is not so difficult. Since the interest is earned on the reserve, the best solution is to allow the interest on the basis of the reserve as of the end of the previous year plus the premium paid at the beginning of the year. Therefore, the age of the policies, the kind of policies, and the number of policies in the group all serve to make the subject one which is difficult to solve, and it is doubtful if any plan, even with various modifications, gives absolute accuracy and fairness between the individual policyholders.

Distribution of surplus.—The greater part of the surplus is distributed to the policy-holders in a mutual company and also to participating policies in stock companies. The common practice now is to pay it in the form of an annual dividend.

In the past not all companies saw fit to pay this sum as a dividend but allowed it to pile up until a huge surplus was accumulated. This usually led to extravagance on the part of the company and to prevent the flagrant waste of policyholders' funds some States have passed laws compelling distribution. For instance, the New York laws limit the amount that may be withheld from policy-holders to a varying percentage of the reserve liabilities as follows:

If the net value of the policies in force is less than $100,000, 20 per cent of such net value or the sum of $10,000, whichever is the larger, may be retained as a contingency reserve. If the net value of the policies is over $100,000, then there shall be a decrease of the percentage thereof, in

measuring the contingency reserve, of 1/2 per cent for each $100,000 of net value up to $1,000,000.

½% for each $1,000,000 of net value from 1 million up to 10 million
½% for each 2,500,000 of net value from 10 million up to 20 million
½% for each 5,000,000 of net value from 20 million up to 50 million
½% for each 25,000,000 of net value from 50 million up to 100 million or over

The sum left undistributed goes under many headings, varying with the practices of the respective companies. The most common terms employed are "contingency reserve," "mortality fluctuation fund," "asset fluctuation fund," "equalization fund", and other similar names denoting the purpose of the account.

**Divisible surplus and the nature of a life insurance dividend.**—After special reserves, as set forth above, are deducted from the surplus, the remainder is available for distribution as a "dividend." The term "dividend" as applied to life insurance policies is really a misnomer. We have seen that the source of dividends really lies in the fact that it has not cost as much to conduct the business as was anticipated. In other words, as in a co-operative store, the dividend is not a profit but a saving, which saving is refunded to the policy-holders in the proportion which they were overcharged. It differs from dividends on shares of stock as it represents salvage and not profits, and for this reason should not be subject to taxation.

**Size and importance of dividends.**—So large are the "dividends" in some cases that it is very important, when purchasing insurance and making comparison of costs of different companies, to take into consideration the dividends that have been paid and the prospects that they will be continued. For a comparison of participating and non-participating policies in the early years when the participating rate is the higher of the two, the non-participating policy should receive credit for the amount of interest that this diffence in premiums would earn. Thus, if the premium the first year on a non-participating policy is $14.72, and on a participating policy $18.00, the interest on the difference between the two should be credited to the non-participating policy. It is frequently maintained that the individual would not be likely to invest the difference and receive interest on it. Nevertheless, this is the only manner by which an accurate comparison can be made. Table I shows the existing dividend scale of a participating policy

issued at age 21, on a 3½ per cent basis, exhibiting a gradual increase as the policy becomes older. Compare the column headed "net cost" in Table II, which gives the constant non-participating rate at age 21 on an ordinary-life policy, and shows how the participating rate soon reaches the non-participating and then continues on its downward journey until there is no doubt as to which has the lowest cost in later life.

TABLE I

Age 21. Ordinary-Life Policy, Participating. Premium $17.21

| *End of Year* | *Dividend* | *Net Cost* |
|---|---|---|
| 1 | $3.27 | $13.94 |
| 2 | 3.34 | 13.87 |
| 3 | 3.41 | 13.80 |
| 4 | 3.49 | 13.72 |
| 5 | 3.56 | 13.65 |
| 6 | 3.65 | 13.56 |
| 7 | 3.73 | 13.48 |
| 8 | 3.83 | 13.38 |
| 9 | 3.91 | 13.30 |
| 10 | 4.01 | 13.20 |
| 15 | 4.55 | 12.66 |
| 20 | 5.22 | 11.99 |
| 25 | 6.10 | 11.11 |
| 30 | 7.28 | 9.93 |
| 35 | 8.86 | 8.35 |
| 40 | 10.81 | 6.40 |
| 45 | 13.08 | 4.13 |
| 50 | 15.66 | 1.55 |

TABLE II

Age 21. Ordinary-Life Policy, Non-Participating. Premium $13.77

| *End of Year* | *Cost* | *Saving* | *Excess* |
|---|---|---|---|
| 1 | $13.77 | $0.17 | |
| 2 | 13.77 | .10 | |
| 3 | 13.77 | .03 | |
| 4 | 13.77 | | $0.05 |
| 5 | 13.77 | | .12 |
| 6 | 13.77 | | .21 |
| 7 | 13.77 | | .29 |
| 8 | 13.77 | | .39 |
| 9 | 13.77 | | .47 |
| 10 | 13.77 | | .57 |
| 15 | 13.77 | | 1.11 |
| 20 | 13.77 | | 1.78 |
| 25 | 13.77 | | 2.66 |
| 30 | 13.77 | | 3.84 |
| 35 | 13.77 | | 5.42 |
| 40 | 13.77 | | 7.37 |
| 45 | 13.77 | | 9.64 |
| 50 | 13.77 | | 12.22 |

Since it is desirable to try to anticipate the possible dividends, this is often attempted approximately by an examination of the sources, and several ratios are commonly employed for this purpose. A very common one is the ratio of actual to expected mortality, a low ratio being presumed to indicate the exceptional health of the risks on the company's books. Unless made advisedly, a comparison of different companies in this respect is fraught with considerable danger. For example, it is manifestly unfair to compare a young company with an old one, inasmuch as nearly all the lives in a new company are freshly selected, while nearly all of the risks of the older company have been on the books many years. While the mortality of the new company may be very low for

a few years, it is quite possible that it will be fully as large as that of the older company after this temporary advantage disappears. Likewise the class of business in which the company specializes may be an influential factor. It has been said, for example, that the mortality on endowment policies is much lower than on whole-life policies. Another misleading ratio is that of actual expenses to loading, which being low, is often assumed to indicate economical management. It should be plain that the result of this ratio is dependent, not only on the amount actually expended, but also upon the assumed expenses or loading. In order to effect a low ratio of the above type it is necessary only to increase the loading charged the policy-holder. Another ratio is actual interest earned to assumed interest or "interest required." In a comparison of companies they must all be operating upon the same interest basis, otherwise the numerators of the ratios are dissimilar in character and the results nil. The safety of the investments likewise receives no consideration, though very important. As no one would think of judging an industrial corporation by a comparison of "anticipated" cost of a unit of product and actual cost of the same or by a comparison of actual earning and a "fair" return on investment without further definition and qualification, so these comparisons in life insurance usually prove fallacious.

Time of distribution.—As mentioned above, the dividend is usually on an annual basis. Not only does this produce the best results in most instances but in some States it is required by law after the third policy year. It is fairest to the policyholders and prevents the company from having an idle fund open to abuse or extravagance, as in the case where the dividend is deferred. No company, however, pays a dividend until the policy has been in force at least one year, and many require that two or three annual premiums shall have been paid. When it commences, however, the dividend continues and grows larger the longer the policy runs, unless the company meets with some unusual adverse experience.

The annual dividend scheme has not always been in effect but grew out of the deferred dividend plan. Under this system dividends were not paid except at the end of certain periods such as 5, 10, 15 or 20 years. "Deferred dividend policies" were sold in great quantities at one time, but because of the dissatisfaction resulting from misunderstandings and

overestimates of prospective dividends, many States prohibited them and they have now been practically abandoned.

Another type of dividend was given under the old tontine policy, now legislated out of existence. Under this policy all of the persistent policy-holders at the end of a specified period received the available funds. Those who had lapsed prior to this time forfeited everything they had paid, as did those who had died, the result usually being a large "melon" for those who remained. The deferred-dividend policy applied this same forfeiture principle to dividends only, the extent of its effect in this case depending on the length of time the dividends were withheld. These plans introduced into life insurance a speculative element entirely foreign to its purpose. The deferred dividend was undesirable because (1) the survivors gained by the death of others, (2) the large undistributed sum held by the company frequently resulted in extravagance and (3) agents overestimated future dividends and many misunderstandings followed.

Special types of dividends.—Two other special forms of dividend should be mentioned. The first is the "guaranteed dividend," where the company promises at the time of writing the policy that a dividend will be paid. The other is the "preferred dividend," which is nothing more than the preference of policy-holders over stockholders, in the case of stock or mixed companies. A guaranteed dividend is really not a dividend, as the cost of it may readily be included in the premium; in fact in most States the insurance laws make it illegal to promise dividends unless the cost of the same are comprehended in the premium.

As a result, neither companies nor their agents issue any statements which might be constructed as a promise of dividends. They do, however, issue "illustrative dividends" such as those in Table I, which are figures showing what might be expected if the existing dividends are maintained. The danger of overestimating future dividends was well demonstrated by the experience of 1918, when many dividends were cut or abandoned owing to the unusual mortality.

Sources of dividends.—A more detailed explanation of the sources of surplus is necessary in order to understand the dividends paid on life insurance policies.

*Mortality saving* is usually one of the most important sources. Since the American Experience Table is used by

practically all companies to calculate the net premiums, most companies will have this source. This being an "Ultimate Table," ignoring medical selection and constructed prior to the recent strides of medicine and surgery which have greatly lengthened life, it anticipates a much higher rate of death than that which actually occurs. Many of the companies with rigid medical examination show an actual experience of from 55 to 65 per cent. of expected mortality. As a natural consequence the reserves are held longer, become larger on the average and earn more interest than anticipated; and due to the longer life of the insured more premiums are collected.

Another source is *loading,* which includes not only the regular expenses but usually a sum for contingencies, such as high death rates due to epidemics, loss on investments on account of the unprofitableness of investments or the failure to secure investments earning the assumed rate of interest. However, expenses can all be calculated very closely and consequently economies do not contribute a very great amount of surplus to the business.

Next we have *gains from investments,* which are of two kinds: those derived from appreciation in the value of securities and those secured through larger interest earnings than the rate assumed in the calculation of premiums. The latter has become more important during recent years, owing to the steady increase in the rate of interest paid on securities. With the exception of the years 1918 and 1919, when the insurance companies absorbed a lot of low interest-bearing government securities, they have been favorably affected by these higher interest rates, although the benefit to policy-holders is offset by the lower purchasing power of money.

Lastly, and least in importance, are the *gains from forfeitures* which sometimes occur in companies that do not grant surrender values during the early years of the policy.

Dividend options.—The form in which a dividend may be taken is usually optional with the policy-holder. Either at the time of the writing of the policy or at the time the first dividend is payable the insured makes a selection which remains effective year after year unless a change be requested. Where no selection is made there is usually an automatic provision to the effect that the dividend shall be applied as a net single premium to purchase paid-up additions, or else cash may be paid.

The number of options varies with the companies, the more common being (1) to take the dividend in the form of cash or apply it to the current year's premium, (2) to purchase non-forfeitable paid-up additions which may be participating or non-participating according to the terms of the contract, or (3) to accumulate at a fixed rate of interest, withdrawable at the policy-holder's option, or in some cases on policy anniversary. Other choices frequently found are (1) to use the dividend to make the policy one that is paid-up, (2) to convert the existing policy into an endowment or (3) in the case of an endowment to shorten its term.

## Chapter IX

# INSURABLE INTEREST, THE BENEFICIARY AND ASSIGNMENT

**Description of insurable interest.**—When an application for a policy is received by an insurance company it is not usually granted unless there is evidence of the "insurable interest" of the applicant. Such an interest may arise from many causes but three general groups will include practically all cases: (1) the interest of a person in his own life; (2) an interest arising from "love or affection," i.e., through blood or marriage; (3) a pecuniary interest. They will be separately discussed in this order.

**Interest of a person in his own life.**—One of the important differences between life insurance and other forms of insurance is to be found in the application of the principle of indemnity. The purpose of property insurance is to make good the loss sustained. Thus, if property worth $5,000 is destroyed and the owner has a fire insurance policy for $10,000, the maximum amount that will be paid is $5,000. But in life insurance the courts have held that the value of a person's life to himself is incapable of determination; therefore the only limits to recovery are the maximum amounts which the insurance companies will accept. This view leaves us in an indefinite position and it would seem advisable to apply the principle of the "capitalization of a human life," i.e., capitalize the income which can be reasonably anticipated if life continues and purchase a policy which will assure the payment of such a sum . Furthermore, it is not by any means certain that the courts will always continue their present attitude.

**Interest of a relative.**—This refers to the interest which arises through "love or affection" induced by blood relationship or marriage; although the mere fact that relationship exists is not conclusive evidence that an insurable interest also exists. Such interest is presumed in the case of husband and wife, and usually parent and child, but beyond this the court decisions indicate that some expectation of pecuniary gain is

necessary in order to make the interest insurable. It should be kept in mind, however, that the insured who takes out his own policy may make anybody his beneficiary. The preceding discussion applies only to those cases where one person obtains insurance on the life of another.

**A pecuniary interest.**—By this we mean the interest which one person (for example, a creditor) has in the life of another (his debtor) when the continued existence of the debtor promises a pecuniary gain to the creditor and when the debtor's premature death may destroy these chances. The extent of the interest of a creditor is limited by the courts and has been held frequently to be the amount of the debt with interest, plus the policy premium with interest thereon. The interest of a dependent or other relative who has an expectation of pecuniary gain is included here. The somewhat humorous case has also been cited of the interest a fiancée has in her fiancé, i.e., an anticipated pecuniary benefit which will arise from the continued life of the person insured.

To this group also belong the interests involved in the so-called "corporation insurance" and "partnership insurance." By the first is meant the interest that a corporation has in its employees, particularly in the highly-skilled executives whose death may mean serious loss or even ruin. In the case of partnerships, each partner has an interest in every other partner, since the death of a valuable member of the firm may cause its failure. Furthermore, the withdrawal of capital that may ensue upon the death of a partner may place the remaining partners in a perilous financial position. The extent of the insurable interest in either of these two latter examples is about as difficult to determine as the amount of insurable interest which the insured has in his own life.

The justification for the requirement of insurable interest lies largely in public policy. Without such a requirement people could insure one another's lives indiscriminately and the contracts would be largely wager contracts, speculations on the probable duration of an individual's life. In fact, such policies might endanger the life of the insured, particularly in the case of children.

**The beneficiary defined.**—The beneficiary is the person designated in the policy to receive the proceeds when the contract matures. All such persons must have an insurable interest, as explained in the preceding section, except where the insured

takes out his own policy and designates some person or persons other than his estate or himself as beneficiary or beneficiaries. It is the purpose of this section to explain the important legal effects of the two principal methods of naming beneficiaries; first, with the right of revocation; and second, where the insured does not reserve the right to change the beneficiary.

Reserving the right to change the beneficiary.—This is the method most commonly used, since the insured is certain to retain complete control of his policy.[1] If at some later date he sees fit to select another beneficiary there is nothing to prevent it, since the only right the existing beneficiary acquires is an "expectancy" of future gain. If, for instance, the insured desires to use the policy as security for a debt he will have no trouble in changing the beneficiary, although it should be mentioned that a better method to protect a lender is to name a relative as beneficiary and then to assign the policy. It should be further added that some companies will not permit the designation of a beneficiary whose only relationship is that of creditor but require the method just mentioned. On the other hand, if the right of change was not reserved the assignment is not possible without the consent of the beneficiary. As an illustration of the policy provision covering this point the following is cited: "The right of revocation .....reserved by the insured. When the right has been reserved, the insured shall have full power while this policy is in force (subject to any previous assignment) to change the present beneficiary or beneficiaries. Such change shall be made in writing and shall be valid only upon its endorsement on this policy by the Company at the Home Office." Various wordings to the same effect are used by different companies.[2]

While the advantages of this method are ostensibly conclusive there are some very serious disadvantages. In case of bankruptcy the creditors have been permitted to attach a life insurance policy and use the proceeds for their protection. A specific exception to this rule is found in the National Bankruptcy Act, which gives a bankrupt the right to pay over the cash surrender value to the trustee, but failure to do this within thirty days of the ascertainment of the amount means that the entire policy passes to the trustees.

[1] See Appendix III.

[2] See Appendix III.

Another and much broader protection to beneficiaries is by State statute, for under certain conditions the laws of some States prevent creditors from obtaining any part of the policy, not even the cash surrender value. These conditions usually are found where a wife or child has been named as beneficiary; some laws going so far as to include dependent relatives. However, most such statutes place some limitation on the amount of this exemption by specifying some maximum annual premium, such as $500 in the State of New York. Contrasted with this in Pennsylvania no limit is specified.

**Right of revocation not reserved.**—When the insured does not reserve the right of revocation the beneficiary obtains a vested interest in the policy. The beneficiary is no longer dependent on the whims of the insured and the policy is not the absolute property of the latter. This method is of course of greatest advantage to the beneficiary because the insured cannot assign the policy, insert another beneficiary, or make any change without the written consent of the existing beneficiary. The further advantage of this method is that where there are no State statutes preventing creditors from taking over the policy, they cannot take it from the insured if he is a bankrupt, due to the vested interest of the beneficiary. The principal disadvantage is that it binds the insured, although he can cease the payment of premiums. Another all too-common illustration of the disadvantage of this method to the insured appears in the case of a man who has irrevocably named his wife as beneficiary and who, after having paid a considerable sum in the form of premiums, becomes estranged from her or divorced. He then usually does not desire her to receive any benefits under the policy but is powerless to do more than cease paying premiums.

**Purpose of assignment.**—Among the numerous uses of life insurance is its use as security for a debt. Sometimes a debt is the original cause for obtaining the insurance but more often the opportunity to make use of the policy as collateral arises after it has been issued. In either instance assignment seems to be the best method of accomplishing the desired result.

Where the policy is primarily secured to protect a creditor, it is a matter of expediency to name as beneficiary some person with whom the insured has more than a business relationship, because of the probable changes in the amount of the

debt without any corresponding change in the face of the policy. Furthermore, some companies require it. If the creditor is named as beneficiary he will receive the full amount of the policy if the insured dies, and if the debt has been decreased in the meantime he may receive more than his due. The best method to prevent this is for the insured to name a specific beneficiary, such as his wife, and make an assignment to the creditor "as his interest may appear." Thus any possibility of excess payment being made to an outsider is obviated, since the equity of the assignee will be limited to his interest, and if there is a balance it will revert to the beneficiary, who presumably will be a member of the family.

Method of assignment.—Unlike fire insurance policies, there is no special form attached to life insurance policies for the purpose of assignment. No particular wording is needed to accomplish the assignment as long as it is sufficiently definite to establish a legal claim, although as a matter of accommodation and uniformity, the insurance companies usually furnish forms upon request.[3] They do not, however, assume any responsibility as to the legality or effect of the assignment and furthermore will not be bound to an assignment until it is on file at a designated office. This, however, does not mean that the *consent* of the insurance company is necessary as in the case of a fire policy.

When the policy is obtained with a view to protecting a creditor complications can be avoided if proper care is taken, but where an attempt is made to assign a policy which has been in force for some time and already has a large surrender value, difficulties are frequently encountered. Thus if the insured has named a beneficiary without right to change, written consent must be obtained from the beneficiary. This is sometimes impossible. It should be added that companies sometimes request the consent of the beneficiary even if the right to change has been reserved by the insured. Further complications are invited when an assignee attempts to assign a policy because the company may have a lien against the policy of which the creditor is not aware and it is a well-established rule that the assignee can only receive those rights which the assignor possesses at the time of assignment, even though a new contract exists between the company and the assignee beginning with the date the company approves the assign-

[3] See Appendix VIII.

ment. Then, too, State statutes sometimes make certain restrictions, particularly where a beneficiary who is a dependent relative assigns his or her rights. In fact, the assignment by an assignee is something to be avoided, if possible, since the policy is not a negotiable instrument and unforeseen legal difficulties may be encountered. Formalities are sometimes required for an assignment. If the assignment is made by a corporation it is customary for the insurer to require a copy of the minutes of the Board of Directors authorizing the assignment, in addition to a copy of the assignment itself.

When the obligation for which the policy has been assigned is discharged, it is advisable to secure a "release of interest"[4] and file it with the insurance company. The reason for this is that while policies are usually placed in the hands of the assignee, the courts have held that such possession is not essential. Consequently the possession of the policy by the insured is not conclusive evidence that the obligation has been discharged. A "release of interest," however, will prevent legal difficulties.

The application.—The first step in securing a policy is to fill out an application. This is usually divided into two parts.[5] The first part relates to the amount and kind of policy, the premium, the age of the applicant, the amount of other insurance carried, etc. The second is used in connection with the medical examination and in addition to a statement of the results of the examination by a physician, questions must be answered by the applicant regarding his health, his habits and his family history. Some of the statements thus set forth are deemed warranties and some representations. If the statement is a warranty its untruth or violation is sufficient to void the policy. If it is a representation the policy will not be voided unless the statement was material to the risk. The effect of such warranties has been mitigated in two ways. First, many States have passed laws to the effect that in the absence of fraud all statements shall be considered as representations. Secondly, an "Incontestable Clause" has been added to the policy. This is usually to the effect that the policy is incontestable by the company after the policy has been in force for one year, except for non-payment of premium.

[4] See Appendix X.

[5] See Appendices I and II.

**Settlement of claims.**—Settlement of policy claims arises in four ways:

1. *Surrender.*—This is when the insured surrenders his policy to the company for the cash value. All parties interested in the policy usually have to sign a form requesting the cash value.[6]

2. *Matured Endowments.*—It is customary for the company to send notice to the insured at the maturity of the endowment, whereupon he files a statement to the effect that he is still living and the company pays the proceeds to him. With the exception of corporation and partnership insurance the beneficiary seldom has any interest in the endowment feature.

3. *Death.*—When the insured dies it is necessary that the company be notified. Then with the assistance of a company representative the "Proofs of Death"[7] are made out and filed with the company. As soon as approved the claim will be paid. It should be added that a notification or request for payment is not a claim until the proof of death has been received. Therefore, when a company says that all its claims are paid within one day, it means one day after receipt of proof of death and not one day after death.

4. *Annuities.*—The payment of an annuity begins at a fixed date which may be, as previously stated, either immediate or deferred. The company may require, at the time of any periodical payment, evidence that the insured is still alive.

[6] See Appendix XI.

[7] See Appendices XII and XIII.

## Chapter X

# SPECIAL FORMS OF LIFE INSURANCE

**Fraternal insurance—History and description.**—Fraternal insurance is possibly the oldest form of life insurance and its origin may be traced back many centuries to the time when organizations were first formed for mutual benefit. While these historic unions and guilds never applied the word "insurance" to their operations, they nevertheless performed the functions associated with the name. In the United States the growth of fraternals for the purpose of insurance has been parallel with that of the old line (legal reserve) insurance companies and today, while they have not nearly so much insurance in force as the latter companies, they have enormous memberships. Most of this growth has taken place during the last half century, for it was not until after the Civil War that the really phenomenal increase took place. One of the chief reasons for this was the fact that the legal reserve companies had just entered upon their period of expansion, furnishing great stimulus to the fraternals. The fraternals supplied keen competition although their schemes were then often based on fallacious arguments. They maintained that the legal reserve companies were charging a high level premium, much larger than current mortality costs and including an element of reserve, but that since the average age of membership and average death rate did not change much, year after year, this reserve was unnecessary. Therefore all they would collect from their members was the average annual cost. At first sight this seemed quite a plausible argument because it was commonly observed that the average age was constant in a given community. While this was true of a particular locality because births and deaths balanced each other, it did not necessarily apply to individual groups and associations in the community. Consequently as the members grew older the probability of death increased rapidly. These increases in the rate of mortality soon had many of the societies in financial difficulty and they were then compelled to cut down their benefits and in many cases to dissolve.

The stronger of these associations, however, were able to pull through by increasing their rates, a measure made possible only by the nature of their organization. Having been founded on the basis of fraternal spirit, the members often felt that they were united by a bond stronger than one of mere financial relationship and stood by their brothers through financial difficulty. In this type the social feature was nearly as important as the benefits. Usually such fraternals were organized on the lodge principle, with local chapters acting under the supervision of a superior lodge or lodges which were State or national in character.

It was this better type of fraternals just described that was able to exist, and the sounder of them formed the National Fraternal Congress. This organization constructed a table of mortality from their combined experience and called it the National Fraternal Congress Table. Recognizing their deficiencies, they attempted to induce all similar societies to conform to a reserve basis as ascertained by this table. Opposition was met in the form of an association of the weaker fraternals, and no common agreement could be made to satisfy all. This agitation led to the so-called "Mobile Bill," formulated by the insurance commissioners at a convention in Mobile. The "New York Conference Bill," which is a modification of the "Mobile Bill," has been adopted by many States. These laws induce the fraternals to come over to the legal reserve basis. However, they do not use the American Experience Table as a basis for calculating the reserves required but allow the fraternals to use the table made from their own experience. An exception to this is where the American Table is specified by law as the measure of the reserve in order to determine whether a fraternal can grant loan and cash values.

Their combined experience as shown in the National Fraternal Congress Table does not coincide exactly with the American Experience Table and their reserves are smaller. Many are still confronted with the problem of bringing the reserves up to an adequate basis and under some recent State laws this must be accomplished in a given time. Until this is completed they may find it necessary to charge rather large premiums and it should be added that in the process of rectifying the errors of the past many have fallen by the wayside. The reason for this is more apparent when it is realized that

the old line companies hold approximately twelve times as much reserve per $1 of insurance in force as do the fraternals.

**Differences between fraternal and old line insurance.**—The idea that a reserve was necessary has always been the chief difference between the old-line companies and the fraternals, but on this point they are now a unit.[1] Some other differences still exist, however, and should be mentioned. The fraternals grant a "benefit certificate" or "life certificate" in place of a policy, the latter being a long-term contract with a fixed premium wherein the company is bound but the insured is not. The certificate specifies that the benefits are dependent not only on payment of dues but upon compliance with the by-laws and constitution of the society, and members are not always assured that there will be no change in the premium. Other usual restrictions are that only relatives may be named as beneficiaries, and assignment to persons outside of this group is prohibited.

Nevertheless, there is nothing inherently wrong with fraternal insurance and its future possibilities are very great. This is true more especially since they have been reconciled to a scientific basis. Under intelligent and efficient management they have lower expenses than the regular commercial companies because there are no agents' commissions and, frequently, no medical examination. A further advantage is that a fraternal bond tends to hold the society together and thus reduce lapses. In view of these conditions we can expect the stronger organizations to grow and become larger and better than ever, and as long as the spirit of fraternalism is extant the old-line companies will meet with plenty of competition.

**Assessment insurance.**—Assessment insurance furnishes glaring illustrations of the fallacies which have been prevalent in regard to insurance. This form of insurance differs but slightly from the former fraternal system; in fact many fraternals have used it. But its most extensive use has been by organizations formed for the purpose, and by the so-called business assessment associations, which usually confine their membership to particular trades. The earliest assessment plan was where each and every member was assessed a flat amount, so that the total collected was just sufficient to meet the current costs, collections being made each time a member

[1] See Appendix XIV.

died. If this be applied to any one group, it is equivalent to the one-year term policy on the increasing step-rate plan. The objection mentioned in a previous chapter (Chap. VI) concerning the one-year term with an increasing rate applies to assessment insurance with equal force, i.e., the rate at the older ages, because of the greater number of deaths, rises so rapidly and to such an amount that it is prohibitive. The other and more important objection is that the members fail to live up to their agreements. This will be better understood by an explanation of how the method worked out.

Where organizations used the assessment scheme, the assumption was that the young members would counterbalance the older, which in fact did not occur. The discrepancy between similar premiums and dissimilar ages soon became obvious. The younger men would see the mounting costs caused by the older members and either not enter or drop out and join a group with younger lives and lower costs. So, frequently, all the young blood would disappear and there would be nothing left but numerous old members and, in consequence, a rapidly soaring mortality cost. Eventually this would become unbearable and the society would end.

A modification of the flat assessment was to scale it on the basis of the attained age at entry. While this was a slight improvement, it only postponed the inevitable. Another attempt to stave off the approaching difficulty was to collect the assessment in advance; but this merely delayed the imposition of extra charges. Although the plan is now in disfavor, it is by no means extinct. A number of fraternals still use the system in their local lodges, as do some of the business assessment societies.

Industrial insurance—Origin and purpose.—Industrial insurance was first introduced into the United States in 1875, having had its origin in the recommendations of a Parliamentary Committee investigating insurance for the working classes in England, about 1854. This Committee found that wage-earners really were in greater need of insurance than the class of people who were already insured but, owing to the system of premium payments, the more humble working man was unable to take advantage of the existing plan. Trade guilds, burial clubs and some fraternals were available to him, but these were not managed on a scientific basis and their success depended largely on the ability and willingness of the

members to pay. The result, of course, was not satisfactory, as financial adversity often relieved members of their sense of responsibility and failure followed. To solve these difficulties it was suggested that insurance companies conducted on a scientific reserve basis provide ordinary insurance for the masses by charging a weekly permium and sending a personal representative of the company to collect it. This plan was attempted by several companies and the results were most gratifying. Its extension into other countries, including the United States, followed, and it has met everywhere with practically the same success. In the United States its growth has been phenomenal; in less than a half of century it has grown until it now involves over forty million policies with a face value of about six billions of dollars.

The system explained.—Practically the same policies that are written in the ordinary business are included in the industrial plan, i.e., ordinary-life, limited-payment, endowments, etc. Guaranteed values, paid-up insurance, extended insurance, and cash and loan values are also granted.

However, there are some important differences, which are described below:

1. *Medical Examination.*—This has been found to be very costly when compared with the size of the average industrial policy. Consequently either the agent or superintendent makes a report as to the health of the person to be insured and this is used as the basis of acceptance or rejection. Occasionally, if the size of the policy warrants, a medical examination is given.

2. *Insurance on children.*—Children are accepted under this plan for a limited amount, although as the child grows older the amount may be increased in accordance with special infantile tables constructed for the purpose. It might be mentioned that the child's endowment is a very popular policy in this type of business.

3. *Size of Policy.*—The size of the industrial policy averages less than $200. However, it is not customary to express the amount of an industrial policy by its face value, but rather by the weekly premium, i.e., 3-, 5-, 10-, 15-cent policy, etc.

4. *The Premium.*—The premium differs both in the manner of payment and the annual cost per $1,000 of insurance.[2]

a. *Manner of payment.*—In place of sending the premium

[2] See Appendix VII.

to a designated office an agent calls once a week to collect it. In order to do this the industrial companies maintain a very large force of agents, supervised by a superintendent or assistant superintendent who has charge of a specified territory. The agents are given a "debit," which is the total amount of weekly premium collections they are to make. In addition to this they are supposed to solicit new business, prevent lapses, and promote the interests of the company. The remuneration is usually a commission on the weekly collections and the new business written.

b. *Cost per* $1,000 *of Insurance.*—The cost is considerably higher than for ordinary insurance, due principally to the expense of collecting the premium and the higher rate of mortality among industrial workers. The system previously explained for premium collection is expensive, but it has been learned by experience that as far as wage earners are concerned premiums must be collected by a personal representative and at frequent intervals.

The higher mortality rate among this class of people has been the subject of much investigation and special tables have been constructed after a detailed analysis. It has been found in these analyses that the chief causes for the higher mortality are unsanitary homes, inadequate food, hard work, close confinement, necessary exposure, lack of best medical skill, attention secured only in the last emergency and ignorance of the simplest laws of hygiene.

5. *Deferred Benefits.*—It is sometimes provided that if death occurs during the first six months of the policy only one-half of the face of the policy will be paid. In the case of policies on children the face is frequently on an ascending scale, and as the child grows older the amount of the insurance increases, although the premium remains the same.

Advantages of industrial insurance.—That industrial insurance is a necessity there can be no doubt, even though it has been frequently subjected to severe criticisms. These objections refer principally to the high cost and alleged extravagance, which are far outweighed by the following advantages:

1. The wage-earner is able to secure insurance protection.
2. The system of weekly payments inculcates ideas of saving and thrift.
3. When a bread winner dies his family is not so apt to become a public charge on the community.

4. Poverty and suffering of dependent families is materially reduced.

5. Causes of the higher mortality rate (previously mentioned) are analyzed and recommendations are made explaining how to reduce the high mortality.

6. Communities where policy-holders are numerous are frequently furnished with a nurse and a company physician is designated. Their services are available, free of cost, to persons who are insured by the company. It has been found that such service more than pays for itself.

**Group insurance—Nature of the plan.**—Group insurance, as it exists today, is of recent origin, and may be defined as the coverage of a number of individuals by means of a single or blanket insurance policy. This type of contract, from its very nature, has been applied to the employees of industrial concerns, where the employer assumes the responsibility for the payment of the premium, it having been found impractical to grant insurance on a group without having some central responsibility.

Since 1911, when the first policy of this kind was written, its popularity has grown with remarkable rapidity, until now we find many companies with separate departments purposely created to handle group insurance. In addition, the field of group insurance has been extended. At first only insurance promising payment in case of death was written but now various types of policies, including limited-payment life and endowment policies, as well as accident and health insurance and old age annuities, are sold under the group contract. In other words, practically the entire field of life insurance is covered by group policies, although the contract most commonly used is the one-year renewable term.

**Method of insuring a group.**—When an employer desires to insure his employees he, or the insurance company representative, fills out a preliminary inspection blank. This form describes the occupation of the various employees, the buildings, fire protection, sanitary conditions, drinking water, occupation of the various employees, and states the average age, sex, and whether the employees are examined regarding health, etc. On the basis of this a tentative rate may then be quoted and the employer files his application and a promise to pay the premium, along with the individual applications of each of the employees to be included in the group. The insurance com-

pany then makes a complete survey of the entire plant and its surroundings and quotes a final rate. All arrangements having been made and the premium paid, the policy is delivered to the employer and each employee receives a certificate of insurance. When a loss occurs the proceeds are usually paid directly to the employer and he pays the beneficiary named in the policy. An exception to this is where the State laws compel payments to be made direct to the beneficiary.

**Factors affecting the group premium.**—The computation of the premium that is quoted is based on numerous factors. They can, however, be divided into two groups; (1) those elements which are primary to all insurance contracts, such as the amount of the policy, the kind of policy and the ages concerned and (2) those which are secondary or miscellaneous, i.e., which may or may not affect the particular contract.

1. *Primary factors.* One of the most important items is the amount of insurance. Each employer has his own particular problem to solve and so the face values of the ploicies vary considerably; but most contracts are on one of the following bases:

a. Same amount for each employee.

b. An amount based on length of employment, starting at a certain minimum and increasing yearly to a certain maximum; e.g., $500 minimum and increasing $100 each year until it reaches $1,000.

c. An amount equal to the annual wage of an employee or a percentage thereof.

Regardless of the method adopted, it is customary to have a waiting period of from three months to one year. This, obviously, is to eliminate "floaters." It might be mentioned here that the third method is possibly the most satisfactory.

The kind of policy may be any one of those described previously or a combination of life, accident, and health. The usual policy, however, is for insurance covering loss of life only, for the term of one year. While we have found this impractical in individual insurance it works very well in a group, since the contracts usually specify a minimum and maximum entering age and the employees usually maintain an average age which is comparatively low. This is due to the entrance of the young and the retirement of the old, the result being an almost stationary age. This, however, does not allow the premium to be calculated on the basis of the

average age. While the average age would be thirty-five if half of the group were age 20 and the other half were age 50, thirty-five could not be used as the basis of calculation. This is because the rate of death is much lower at age 35 than the average of death rates at 20 and 50 and the premium would thus be too low. Consequently the premium is figured on every individual employee of the concern and then totaled. From this may be obtained the average premium, which will be somewhat higher than the rate for the average age. However, the rate so ascertained will in all probability remain about the same year after year if the labor turnover is not abnormal. Thus, for an average corporation the annual premium each year on a one-year renewable term policy is about 1¼ per cent. of the total amount of insurance.

2. *Secondary factors* that tend to vary the rate.

a. Possibly one of the most important is the question of medical examination. An assumption in group insurance is that a large enough number will be covered so that no medical examination is necessary. The insurance company, by accepting only those who are actively engaged in the employ of a company, and then in groups of not less than fifty or one hundred, limited to age 15 or 16 as the minimum and to age 55 or 60 as the maximum, automatically eliminates the type of person which causes a high death rate.

This point has been the subject of strongest attack on group contracts as a plan of insurance, it being argued that the insurance company by this method would be subjected to an adverse mortality selection. This has not been borne out by experience and it is doubtful if it ever will be. As a matter of fact, it has often been said that if an insurance company would insure the lives of all the persons walking past a given street corner, it could dispense with medical examinations.

Where the nature of the group is difficult to ascertain by a general survey the entire group may be given a medical examination, and if found to be inferior, may be rejected or rated up. In the same manner, if there are unusual dangers attached to the occupation or if the locality is unhealthy, an additional loading may be put on the premium. This should be allocated evenly over the entire group, regardless of age.

b. Another factor that may cause a higher premium is the presence of the conversion privilege. Some policies permit the employee to convert the policy into an individual contract

for the same amount of insurance in case he separates from the concern that was paying his premium. If this privilege is exercised within a certain period no medical examination is necessary in most cases. The presence or absence of this privilege often indicates whether the employer has adopted group insurance as a selfish method of controlling his labor or largely for humanitarian reasons.

c. An accident and health clause is sometimes endorsed on these policies and an extra premium must be charged for this. It should be mentioned that many separate group policies covering accident and health only are now being written.

d. Group insurance may be participating or non-participating, and this will also affect the premium. The participating insurance usually has an unchangeable premium for an indefinite period but is subject to refunds if the experience is favorable. While the non-participating policy will have a lower premium, the rate will be guaranteed for a limited time only.

**Advantages of group insurance.**—The advantages of group insurance are many but may be classified as they apply to the group, the employer, and the community.

1. *The Group.*—Group insurance is not intended as a substitute for individual insurance, but merely as a supplement. However, it has been found that approximately 40 per cent. of industrial workers carry no protection and group insurance most ably meets this urgent need. As previously mentioned, a medical examination is seldom required, and this results in many persons obtaining insurance who could not obtain individual policies. It should not be concluded that the 40 per cent referred to are individually uninsurable, as the larger part of them could secure policies if they so desired. Thus group insurance renders a great benefit to the individuals of the group and more especially to the dependents of those who are negligent of their responsibilities.

2. *The employer.*—The employer is really the one to whom the contract is sold and there are many inducements from his standpoint, although as the number of group policies increase, the advantages to the individual employer decrease. Nevertheless, he usually buys insurance for one or more of the following reasons:

a. Gives him publicity and advertising.

b. Attracts efficient labor.

c. Creates a better feeling between him and his employees.

d. Reduces labor turnover.

e. Where the insurance is based on an annual wage it supplies a stimulus for higher efficiency.

f. Makes better workers by alleviating distress among employees and their families.

3. *The community*—The burden of caring for an insured employee's family, instead of falling on the community, is carried by an efficient organization. Much suffering and misery is in this manner prevented and the community becomes a much better one in which to live.

Consequently group insurance serves a great need and is becoming more important each year. This growth in all probability is destined to continue, because there is a great demand for insurance of this kind. It is possible that the plan may eventually be extended to insure whole communities regardless of employment. In fact, this is quite practicable in every respect except the collection of the premium.

Sub-standard insurance — its purpose.—A sub-standard risk is one which a company will not accept by its regular method of selection and at its regular rates. This definition, of course, must be viewed from the individual standpoint of each company, because rates and method of selection differ considerably among the several companies and a risk that may be classed as sub-standard by one company may be normal for another. There is a point, however, below which all companies will consider a risk as undesirable according to their regular standards. The failures of risks to meet the standard are due to many causes, of which the following are the most common: occupation, overweight, underweight, family history, heart murmur, rapid pulse and sugar and albumen excess in the kidneys. Nevertheless these risks are possibly in greater need of insurance than the more fortunate who can pass the regular medical examination. The development of insurance on such cases is recent but, as experience in connection with these impaired lives grows, the various companies are extending their risks. Undoubtedly a great service is rendered by those companies which adjust their premiums to take care of this class of individuals and it is stated on good authority that, of the 10 per cent of applicants who fail to pass the regular examination, a majority can secure sub-standard insurance.

Method of rating sub-standard lives.—There are several

methods of rating sub-standard risks but those principally used are: (1) to defer the dividend; (2) to place a lien against the policy; (3) to charge a flat extra premium; (4) to grant only a restricted type of policy, or (5) to charge a premium as of some advanced age. A brief description of each follows:

1. *Deferring the dividend.*—This was one of the first methods employed, and no dividend was paid until the policy had been in force for 15 or 20 years. It is not a very satisfactory method and has fallen into disuse.

2. *Placing a lien against the policy.*—Under this system a lien is placed against the policy and deducted if death occurs within a certain period. Usually it is on a decreasing plan, so that if the insured lives beyond a certain number of payments, no deduction is made from the face of the policy. This plan has never been very popular.

3. *Charging an extra premium.*—This is used extensively in the case of occupational hazards, such as a flat-rate increase in the case of locomotive engineers.

4. *Restricting the type of policy.*—This plan causes less objection from the insured and where the defects of the individual are slight it is possibly the best method of rating. Thus, a limited-payment policy or an endowment may safely be granted, while ordinary-life or term insurance could not.

5. *Advancing the age.*—For most purposes this is the method now used and seems to meet the needs better than any other single method. The manner of rating is to charge the premium as of some advanced age, depending on the seriousness of the cause for being classed as sub-standard. In extreme cases it frequently happens that the individual is not only rated up but also restricted to certain types of policies.

The greatest advantage of such a system of insurance is that those people who need it most are able to secure it. The only disadvantage is the lack of experience on which to base the rate, which results in some inequality of charges.

## Chapter XI

# ACCIDENT AND HEALTH INSURANCE

**Losses due to accident and disease.**—Life insurance protects a man's dependents from poverty and suffering after his death but the man who is incapacitated and unable to earn a livelihood also has need of insurance, for the financial hardships in such a case may be worse than those resulting from death. Compensation insurance covers industrial accidents but there are many accidents occurring without relation to occupation, and sickness causes about seven times the loss of time attributable to accidents.

It is estimated that over 250,000,000 working days are lost each year in the United States due to sickness alone, and that there occur annually about 5,000,000 accidents, of which less than one-half are incurred in the course of employment. In other words the majority of the losses due to accident or disease are not covered by workmen's compensation, and while an examination of the causes leads to the belief that accidents can be reduced, they cannot be entirely eliminated.

Some of the accidents and diseases arise from conditions of employment, and are therefore partially covered by the compensation acts of the various States, as explained in Chapter XII. These, however, provide only limited indemnity for accidents and very few provide at all for so-called "industrial diseases." Such laws also cover only accidents incurred in the course of employment and the remaining one-half of the accidents and diseases are unaffected thereby. So important has this economic factor been considered, that compulsory government insurance has been proposed as a remedy, designed to make the individual provide against the evil results of accidents and ill-health. It has been argued that sickness and injury give rise to so much suffering and poverty in the incapacitated person and his dependents that they constitute a community problem to be solved by community effort. Bills have

therefore been introduced in State legislatures to provide systems for such insurance. In the past, however, the forms of private insurance discussed in this chapter have been the individual's principal protection against non-industrial injury and sickness and probably will continue to be for some time in the future.

The accident and health policy is a natural complement to the life insurance policy; the latter protects against a permanent loss of earning capacity, the former against a permanent or temporary loss of the same through accident or disease. Two partially overlapping forms of protection against these risks are therefore offered. The "disability clause" which appears on many life insurance policies protects only against pemanent disability and sometimes only against permanent and total disability. Accident and health insurance policies, on the other hand, usually also protect against those temporary disabilities which cause the greater part of the economic loss and suffering.

**Disability clauses in life insurance policies.**[1]—In recent years various life insurance companies, by adding a disability clause to their policies, have sought to make some provision for such contingencies. In most instances these clauses provide only for total and permanent disability or, at best, partial and permanent disability, the definitions of disability being usually narrow and restricted. Since over 97 per cent of all disabilities are of a temporary nature the actual value of these clauses is open to debate.

Their limited value is perhaps due to the unwillingness of many of the life companies to enter a field concerning which comparatively little is known. They inaugurated the disability clause mainly for competitive purposes and the extension which has taken place was made necessary by the same cause.

Originally they promised, for a small additional premium, to waive all future payments of the premium in case of total and permanent disability. This could not possibly cost the insurance company a great sum, because the average length of life of a person so incapacitated is less than two years. Later, however, the clause was broadened so that the policy would mature under such conditions and the insured would receive the proceeds in accordance with some specified plan. Some clauses fix this plan definitely, while others give the insured an

[1] See Appendices III and IV.

option along lines similar to the different installment policy options explained in a previous chapter.

A further provision of this type is one which stipulates that not only will the company pay a disability income, but that when death occurs the full face of the policy will also be paid.[2] Another clause promises to pay double indemnity if death occurs on account of one of a specified list of accidents. Just why a man's life should be worth more if he dies in a certain manner is difficult to understand but at least it can be used as a selling argument.

The tendency of these clauses is toward expansion, for which there is much room, since the definition of disability is still far from liberal, the options are few, women are excluded, and the age restriction is usually sixty or sixty-five years. As experience is collected a further development may be expected.

**Coverage by a separate contract.**—At the present time greater and more liberal coverage is possible through a policy covering accident only, or illness only. Better yet is the combination of the two, known as an "Accident and Health Policy," [3] which pays no indemnity for death from natural causes. A modern contract of this class, indemnifying for loss of time through accident or sickness, is a valuable supplement to a life insurance policy, and equally important, for nearly one-half of all the poverty in the United States is due to loss of income arising from accident or ill health. When such an unfortunate event occurs and a person's earning power is totally or partially destroyed it also usually follows that expenses are greater, largely because of necessary medical attention. There can be no question that indemnity for such losses should be made possible. Judging from the fact that the premium income on this class of insurance has doubled in the past five years it is reasonable to conclude that the possibilities may be more fully realized in the near future.

This recent rapid growth is not the mushroom growth of a new type of insurance. The business has lagged because it has never before been properly brought to the attention of the public, the policies have not been liberal but have been limited in their scope, and the attitude of some companies writing this class of business (particularly accident) has been to avoid as many payments as possible.

[2] See clause in Appendix III.

[3] See Appendices XVI, XVII, and XVIII.

All this is now changed, the tendency being to push this line of insurance, and the companies are now competing to see which can provide the most complete coverage and give the best service for the least cost. The business, however, is in a transitional period and the policies have not yet reached the stage of perfection. This has resulted in a market flooded with a lot of policies among which there is very little uniformity. Many States have recently attempted to stabilize conditions by requiring "standard" provisions, as in life insurance. This has at least forced out some of the poorer accident policies, which apparently covered much but in reality covered practically nothing. It does not solve the problem, however, because the "additional" provisions are frequently important and the variance among them is very great. In order to better understand the risk assumed and to recognize the good and poor policies, we will now turn to a classification and description of these contracts.

Types of Policies.—1. *Ticket Accident Policy.*—This is a policy covering death or injury by accidental means and is issued for periods of a day, week, 30 days, and 90 days. It can be obtained at the ticket office of nearly any railroad station and is used principally by travellers. When issued the date and hour are stamped on it and it runs for the highest number of days fixed by attached coupons, ending at noon if issued any time up to noon, or at midnight if issued after noon. The payments promised for ordinary accidents are usually $2,500 if death occurs within 90 days, $1,250 for loss of both hands or both feet, $12.50 a week for 52 weeks for total disability, and $6.25 a week for 26 weeks for partial disability. If the loss occurs because of an accident while being transported by a common carrier the payments are doubled. The premium for such a policy is 25 cents per day, $1.50 a week, $4.50 for 30 days, and $10 for 90 days.

The value of such protection is difficult to estimate because it does not cover disappearances, injuries where there is no visible wound or contusion on the body of the insured, medical or surgical treatment, hernia, poisoning, sunstroke or freezing, injuries resulting from firearms, fireworks, racing or games, suicide, accidents while entering or leaving any moving conveyance and numerous other contingencies. In other words the causes of accidents that are most apt to occur are

eliminated, although on the daily basis the insured is paying $91 a year for the insurance.

2. *Limited Policies.*[4]—These cover accident or sickness due to specific causes named in the contract. While the ticket accident policy enumerates those causes which are eliminated, the limited policy mentions only those which are covered. This type of policy has been one of the most misleading that has ever been issued because, in many instances, the accidents or diseases specified are among the remote possibilities. Not only are the events covered specified, but frequently even the manner in which they must happen.[5] The result is a policy with little or no coverage, and when the insured finds himself disabled he is likely to find also that the policy which he thought was a good one is a mere scrap of paper. So much dissatisfaction has resulted from this that many of these policies have been supplanted by general or unlimited policies. In fact, since the organization of the Casualty Actuarial and Statistical Society of America, in 1914, there has been much general improvement in all accident and health policies.

3. *General or Unlimited Policies.*[6]—The scope of these policies is more or less general and they are not limited merely to a few causes as is the preceding type. Of course the cost is greater, but the protection afforded is much more adequate. With the exception of the standard provisions, however, these policies also vary considerably. Most of them provide for indemnity in case of accidental death, the amount thus paid being known as the principal sum. This is usually the basis of calculation for double, triple, or quadruple indemnity, and also for the amount payable for total disability. For example, one policy says that for death from ordinary accident the company will pay $10,000; for loss of both hands, $10,000; for loss of both feet, $10,000; loss of both eyes, $10,000; one hand and one foot, $10,000; one hand and sight of one eye, $10,000; one foot and sight of one eye, $10,000; either hand, $5,000; either foot, $5,000; and sight of one eye, $2,500. If the accident occurs on a common carrier or passenger elevator, each of these sums is doubled, tripled or quadrupled. In this illustration, $10,000 is considered as the principal sum. This

[4] See Appendices XVI and XVII.

[5] See Appendices XVI and XVII.

[6] See Appendix XVIII.

same policy provides $50 weekly indemnity for total disability, payable as long as the insured lives in such disabled condition, and $20 weekly for partial disability for a maximum of twenty-six weeks.

In other policies the total disability benefits are limited to from fifty-two weeks to four years, and still others grant partial benefits for as long as such disability continues. Frequently hospital and surgical fees are paid as per a policy schedule. Elective settlements may be provided, such as installment payments, interest-bearing bonds, reward for identification, benefits increasing with each renewal, and indemnity for accidental death or disability of the beneficiary or other members of the insured's family.

Combination accident and health policies cover disease as well as accident. To receive indemnity, the insured must be unable to perform his regular duties and be attended by a physician, a distinction usually being made between benefits payable when confined to the house and non-confinement benefits. In some cases, benefits do not begin until a certain period of disability has elapsed, varying from two days to three months, although frequently when the disability exceeds the specified period, the indemnity is calculated from the date when disability commenced.

The disadvantages of the policies thus far discussed are as follows: (a) The company customarily retains the right of cancellation, even during the policy term, so that the insured may legally be deprived of his insurance at any time,[1] although without prejudice to any claim originating prior thereto. (b) In addition to the above, the company may refuse to renew at the expiration of the term (usually one year). Thus the insured may lose his insurance when he needs it most, because as a result of a risk becoming sub-standard, the company may refuse to renew.

On the other hand, while the privilege of cancellation and non-renewal enables an insurance company to relieve itself of risks which become undesirable from a physical standpoint, it also permits it to protect itself against the moral risk of persons who endeavor to obtain payments on fraudulent claims. It also enables the insertion of a shorter waiting period, which to certain classes of persons is a distinct advantage. Under a non-cancellable form, a company must take the strictest pre-

[1] See p. 397.

cautions at the time of writing the policy, i.e., must endeavor to foresee future conditions and charge a premium accordingly. A large number of non-cancellable policies appeared during the past few years and some companies which initiated this type have abandoned it.

4. *Non-cancellable Contracts.*[7a]—Under the non-cancellable form of policy, the company has no cancellation privilege and the insured cannot be deprived of insurance by refusal to renew. One type of such policy approximates the policies previously referred to, with payments of specific indemnities for loss of members, and other special features. The other type confines its protection to indemnity for loss of time, and this latter was recommended by the Actuarial and Underwriting Committee of the Bureau of Personal Accident and Health Underwriters in 1921. Another liberal addition found in at least one non-cancellable contract is an incontestable clause, making the policy after one year incontestable as to the time of the happening of bodily injury or sickness causing disability commencing after such year and while it is in force.

5. *Industrial or Corporate Accident and Health.*—A desire for more extensive or cheaper coverage has led to the organization of many mutual aid associations, the more important being fraternal, trade-union, and corporation benefit funds. Many of the lodge-principle fraternals have provided their members with some form of accident and sickness benefits. Frequently these funds have been raised from dues and assessments and without an adequate scientific basis, resulting in financial difficulties and uncertainty as to ultimate receipt of benefits. They have nevertheless done very beneficial work in attempting to provide a broad coverage against these contingencies, and some have been wisely managed.

Various trade unions have duplicated the efforts of the fraternals to provide for accident and sickness. Their benefits are also frequently obtained from dues and assessments, and the ability to pay depends upon the size and importance of the union, as well as upon the loyalty of its members.

Large corporations, particularly railroads and steel companies, have formed voluntary relief associations and, knowing from experience the amount needed to cover such contingencies, they deduct a certain amount from employees' pay for this purpose. Many corporations guarantee the

[7a] See Appendix XVIII.

solvency of these organizations, and some contribute 50 per cent or some other proportion of the cost.

6. *Workmen's Collective Insurance.*—This is nothing more than a group accident policy, the premium being assumed by the employer, as in the case of the group life insurance contract explained in a previous chapter. In so far as the accident feature is concerned, workmen's compensation insurance has largely displaced it, but a policy covering sickness and non-occupational accidents is now being written by several companies.

**Analysis of principal parts of accident and health policies.**—As previously mentioned, there is no uniformity in the policies on the market; however, when a person obtains a policy he expects to get the best. This is difficult to determine unless one knows how to analyze a policy. Therefore, in order to be better prepared to make a selection, the following explanation of the essential features of the combination accident and health contract is given.

1. *The insuring clause.*[8]—This indicates what the policy covers. A typical clause reads as follows: "The —— Insurance Company hereby insures the person named as applicant in the copy of application for this policy, endorsed hereon or attached hereto, subject to the provisions, conditions, and limitations herein contained, against loss resulting directly and independently of all other causes, from bodily injuries effected during the term of this policy solely through external, violent and accidental means, and against disability from disease contracted during the term of this policy." The insuring clause of another policy which covers accidental loss of life in addition to disability reads as follows: "The —— Insurance Company hereby insures —— (herein called the Insured and described in the Application), subject to all provisions and limitations herein contained: Against loss of life resulting directly and independently of all other causes from bodily injury effected during the term of this policy solely through accidental means; and against disability resulting from bodily injury effected during the term of this policy through accidental means; and against disability resulting from sickness contracted and beginning after the date hereof; such disability, in both cases, to be such as will result in continuous total loss of business time."

[8] See Appendices XVI, XVII and XVIII.

Note the difference between the clauses covering disability resulting from an accident. (1) The former says the accident must be "effected directly and independently of all other causes," while the latter does not. The presence of the former stipulation means that no other agency can intervene, such as a pre-existing disease or infirmity. This phrase, it will be noted, is contained in the latter policy only in the clause covering loss of life. (2) One says the accident must occur "solely through external, violent, and accidental means," while the other merely says "solely through accidental means." Obviously the latter is a broader provision and is not subject to arguments as to whether the accident was external or violent, although the force of these two words is questionable.

The important part of the phrase in either policy is the term "accidental means." This has been subject to interpretation by the United States Supreme Court and it has been decided that the event immediately preceding the happening of the "accident" must have been unexpected. Thus, if the insured is carrying a heavy burden and thereby breaks an arm, it cannot be called "accidental means." If, however, he is carrying this same burden and receives some unexpected blow, which breaks his arm, the injury is included in the term "accidental means." This objection has been overcome in some policies by changing the clause to "accidental injury."

The phraseology relating to disability resulting from disease differs very little in the various policies, usually stating that sickness must be contracted after the policy is written.

Practically all insuring clauses mention limitations and a thorough inspection to discover these limitations must be made, because they are apt to be found anywhere except in the standard provisions.

2. *Total disability clause.*[9]—The interpretation of disability is often the deciding factor as to whether a claim has arisen or not. Definitions of total disability vary from "such injuries or disease as shall immediately and independent of all other causes wholly and continuously disable the insured from following any gainful occupation," to "such injuries or disease as shall prevent the insured from performing the duties of his occupation," and are incontestable as to the time of occurrence. The United States War Risk Insurance Bureau, in connection

[9] See Appendices XVI, XVII and XVIII.

with its life policies, has defined total disability as "impairment of mind or body which makes it impossible for the insured to engage in a substantially gainful occupation." This is apparently one of the most liberal definitions yet given, although "loss of business time," as mentioned previously in one of the insuring clauses, is also considered favorable to the insured.

Indemnity is often limited to fifty-two weeks but in some policies it continues until the insured dies. Loss of sight and dismemberment of two or more extremities are sometimes deemed total and permanent disability without further investigation.

A distinction is frequently made between a disability which requires house confinement, as compared with one that does not, and this makes a big difference in many diseases, particularly tuberculosis. Practically all policies require that the disability be one which requires regular attendance by a physician. This is a practical necessity in order to prevent unjust claims.

3. *Partial disability.*[10]—In some policies partial disability is covered, and the amount payable is a fraction of that for total disability. With the exception of loss of sight or dismemberment, however, partial disability benefits seldom run beyond twenty-six weeks. It should be added that disability under all policies, except those issued by the United States Government, must begin within an age limit, usually from eighteen to sixty-five.

4. *Death.*—Those policies which include payment for accidental death usually specify that the death must occur within a limited time after the accident,[11] such as ninety or one hundred and twenty days.

5. *Optional benefits.*—In place of the lump sum for accidental death it is frequently provided that some other method may be used, such as a reversionary annuity, a gold bond with interest, or an installment plan.

6. *Standard provisions.*—These are required by State statutes and are primarily for the protection of the insured against false policies and fraud. Some attempts have been made to have the several States make these provisions uniform, as in life and fire insurance.

[10] See Appendix XVIII.

[11] See Appendix XVIII.

7. *Additional provisions.*—Under this heading, we find many of the "limitations herein contained" mentioned in the insuring clause, and the following is a list of typical exclusions:

(a) "Any disability for which the Insured is not necessarily and regularly attended by a legally qualified physician other than the Insured;" (b) "suicide, sane or insane, or any attempt thereat, sane or insane;" (c) "women;" (d) "loss of life or disability resulting wholly or partly, directly or indirectly from (1) bodily injury sustained or sickness contracted while the Insured is engaged in military or naval service in time of war, (2) bodily injury sustained or sickness contracted from riding or being in or upon any aerial device or conveyance, (3) bodily injury sustained or sickness contracted while the Insured is outside Canada or Europe or the United States (not including Alaska, Panama Canal Zone or the insular possessions of the United States);" (e) "persons under age 18 or over age 60."

8. *Miscellaneous Provisions.*—So called "frills" are sometimes found providing for double indemnity while in the hospital; double, triple, and quadruple indemnity if an accident occurs in a specified place or manner; fixed amounts for specific losses; surgical benefits and doctors' fees; a reward for identification; or accumulations of the benefits as the policy becomes older (e.g. 10 per cent increase in benefits each year for five years.)

**Important things to examine in accident and health policies.**—From the preceding analysis it is obvious that the insured has many things to guard against when securing accident and health insurance. For convenience, the most common limitations are listed below:

1. Definition of total disability.
2. Exclusion of certain risks.
3. Age limit.
4. Elimination of benefits for a specified period.
5. Maximum period for which indemnity will be paid.
6. The time within which death must occur after an accident.
7. Right of the company to cancel.
8. Inability of the insured to renew.

**Accident insurance rates.**[12]—With the exception of policies covering loss of time due to sickness and disease, usually no medical examinations are required. Therefore, the rates charged are based on occupation and are classified in nine groups, according to hazard, as follows:

| *Classification* | *Increase in Rates* | *Ratio of Indemnity in more hazardous occupations to Indemnity in preferred class* |
|---|---|---|
| | *Per Cent* | *Per Cent* |
| Preferred | 100 | 100 |
| Special Preferred | 120 | 83 |
| Extra Preferred | 125 | 80 |
| Ordinary | 167 | 60 |
| Medium | 250 | 40 |
| Hazardous | 300 | 33 |
| Extra Hazardous | 400 | 25 |
| Perilous | 500 | 20 |
| Extra Perilous | 2,000 | 5 |

The rate manual classifies all occupations under one of these nine groups and the premium is a percentage of the rate for the preferred class. Thus, if $20 is the rate for preferred risks, $60 is the rate for hazardous risks. One of the standard provisions is that when the insured changes his occupation to one more hazardous the premium shall be applied to purchase the benefits of the more hazardous occupation. For example, if a preferred risk holds a policy promising $50 per week indemnity and changes to an occupation classified as medium, the indemnity will be changed to $20 per week.

It should be mentioned in this connection that many accident and health policies are not written for the more dangerous classifications, some companies accepting only those risks which will fall into one of the first three classifications.

So far, these rates have been for the most part based on the judgment of the individual companies. The most conclusive proof that this is the case is the fact that the same premiums are charged regardless of age. However, the business is now going through the process of reform and the companies are combining their experience for this purpose, the most important work being the ascertainment of:

1. Rate of disability from accidental causes.
2. Rate of disability from disease.

[12] See Appendix XIX.

3. Number of days' sickness from disease to each year of exposure.
4. Rate of loss of sight.
5. Rate of loss of hearing.
6. Rate of loss of limb.

The results obtained must then be applied to a specific policy with the following underlying factors in mind:

1. Comparative hazard of the occupation.
2. Effect of injury upon the performance of the duties pertaining to the occupation.
3. Influence of occupation upon physical habits and condition.
4. Moral hazard incident to the occupation.
5. Moral hazard pertaining to malingering, over-insurance, and self-inflicted injuries.
6. Physical condition and age.

**Accident insurance reserves.**—The reserves for this type of insurance are similar to those of workmen's compensation insurance. An unearned premium reserve of 50 per cent of the gross premium must be maintained on contracts over a period of twelve months. Also, a reserve for outstanding claims, particularly those that may run for a long time. The principles of such a reserve are more fully described in the chapter on Workmen's Compensation Insurance. The non-cancellable contract needs an additional reserve to take care of the claims that will not arise until the distant future.

**Compulsory health insurance.**—In recent years much has been said concerning the benefits and evils of compulsory health insurance. We saw in the first part of the chapter that provision should be made for distributing the loss due to sickness, but so far we have discussed only private methods.

Compulsory health insurance presupposes that every one will be insured and that the business will be administered through a governmental agency. Such a plan has been tried with varying success in European countries and this has led to the agitation for a similar scheme in the United States. As a result the subject was investigated by the United States Public Health Service, which has recommended a system which should:

1. Provide cash benefits and medical service for all wage-earners in times of sickness at much less cost than is now possible. Adequate medical relief would thus be placed within

the reach of even the lowest-paid workers, who are most subject to ill-health.

2. Distribute the cost among employers, employees and the public as constituting the groups responsible for conditions causing disease, and afford these groups a definite financial incentive for removing these conditions. This can be done by means of small weekly payments from employees, supplemented by contributions from employers and the Government at a rate reducible in proportion to the reduction of sickness.

3. Include an effective health measure, by linking the cooperative efforts of the three responsible groups with the work of national, State and local health agencies, and by utilizing these agencies in the administration of the health insurance system.

4. Afford a satisfactory basis for the cooperation of the medical profession with public health agencies.

5. Eliminate the elements of paternalism and charity-giving by making employees and the public, as well as employers, joint agents in the control of this fund.

Many arguments pro and con have been given in regard to this proposition, of which the following are the most important in its favor:

1. The existing agencies are insufficient to provide the protection required.

2. The high death and sickness rates among American workers could be reduced by a comprehensive system of insurance.

3. Compulsory insurance is a sure way of obtaining the results desired, while private insurance will always be merely partial in results.

4. Cooperative action will increase the interest in health, provide the insured with better medical attention and indemnify him for loss of time with less expense than a private system.

Against the system it has been urged:

1. Death and sickness rates in the United States are lower under private insurance than in foreign countries under compulsory health insurance.

2. Compulsory insurance will not improve health conditions. A campaign of prevention would be better.

3. A compulsory system is subversive of the fundamental principles of individual initiative and freedom of action.

4. The compulsory system is detrimental to the proper relation between physician and patient, and therefore objectionable to both physician and patient.

5. Political influences and a high expense rate would more than nullify any benefits which the system might be able to provide.

# Part III

# LIABILITY AND COMPENSATION INSURANCE

## Chapter XII

# LIABILITY AND COMPENSATION INSURANCE

**Social insurance.**—Industry, as carried on today, involves certain hazards and losses which have come to be recognized as affecting the welfare of the community as well as of the individual. This field is covered by what has been called "social insurance." In European countries compensation insurance is only one part of a well-organized program of social insurance for the community care of the worker. It was the first section of this program to be introduced in the United States. In Europe we find governmental intervention and assistance in insuring the worker (1) against *temporary impairment* of working capacity through industrial and other accidents, through sickness arising from industrial or other diseases, through maternity and conditions of the labor market; (2) against *permanent inpairment* of the ability to work through invalidism or old age; and (3) against *financial loss consequent upon death.* This is accomplished through burial insurance, widows' and orphans' insurance, health and accident insurance and compensation insurance. In the United States, most of these forms of insurance are voluntary and are conducted with little governmental interference, but compensation insurance against work accidents and industrial diseases is the exception, being compulsory in many States.

**Definition.**—Liability and compensation insurance may be defined as a contract furnishing protection to an employer against financial losses imposed upon him by court decision or statute law when a workman is injured or diseased as a result of his occupation. The loss would result from a court decision under the negligence system or from a statute under the compensation system. Both forms of insurance, as is evident, are founded on the frequency and severity of industrial accidents and disease.

**Industrial accidents.**—The number and seriousness of industrial accidents, even at present, is tremendous. In 1908, it was estimated (accurate figures being unavailable) that 25,000 persons were killed and 700,000 injured annually by this cause. At that time this figure was considered an overestimate,

but subsequent investigation has shown that it was probably too small. An estimate, now in progress of compilation, will probably show a total of 28,000 killed in the year 1917, and 3,877,000 injured, so that in one year the ordinary injuries and loss of life far exceeds the United States' casualties in the entire World War. The killed and wounded, if brought together, would exceed the population of Philadelphia. Estimating an average life expectancy of 25 years, a working year of 300 days and average wages of $2 per day (surely low enough), one year's accidents cause a loss to society of 1,802,984 hours, and a loss of earning power of $1,117,790,400. The losses entailed fall:

1. Upon the employee, through loss of time and wages,
2. Upon the employer, through labor turnover, friction with employees and legal expenses,
3. Upon society, through decreased productivity and the necessity of caring for the dependents of the injured.

**Distribution of accidents.**—Many of these accidents are, of course, minor in character; otherwise compensation premiums would be far higher than they now are. Ninety-seven per cent of such accidents consisted of temporary total disabilities and only 7/10 of 1 per cent were fatalities. Of the 97 per cent which consisted of temporary total disabilities over two-thirds had a duration of less than 14 days, so that out of 3,905,900 accidents, 2,400,000 of the injured were able to return to work in two weeks or less. From a study of the seriousness of accidents it was possible to construct a "Standard Accident Table" which analyzed accidents according to their gravity, and this was a valuable factor for some years in the making of compensation rates. By applying the accident distribution to the compensation provided by various State laws it was possible to find the cost of 100,000 accidents in one State as compared with the cost of the same accidents in other States, thus indicating the difference which ought to exist between the premiums in two States by reason of the varying benefits allowed under the laws.

**Prevention and insurance.**—Some of these accidents are due to the fault of the workman and some to the fault of the employer, but a large number may be ascribed to the general hazard of industry. The latter term, however, includes all those accidents to which we are unable to assign a cause on account of limited knowledge; investigation is constantly showing many

of them to be preventable. A social program should begin with prevention and secondarily provide a system of indemnification for those accidents which cannot be prevented. The latter is the function of insurance; but since the more efficacious the prevention, the lower the premiums, the two are inseparably connected, and insurance furnishes a highly important means of encouraging a reduction in the number and gravity of accidents.

**Industrial diseases.**—Some of the compensation laws of the States already include compensation for industrial diseases. Unfortunately, no satisfactory statistics exist to indicate the extent of industrial disease and the losses caused by it, but we know it must be a problem fully as great as the accident problem. Poisons, germs, unsatisfactory ventilation, dust, improper temperature and lighting conditions annually incapacitate millions of workmen. The next great step in compensation laws will probably be the general inclusion of indemnification for the results of industrial diseases.

**Law of negligence.**—This was the basis of liability insurance and its abolition marked the initiation of compensation insurance. In England, prior to 1837, the employee, if he had any rights against the employer for injury, at the most had no more rights than a stranger. Even many years later he could not recover damages from the employer unless he could clearly prove that this resulted from definite negligence on the part of the employer. The law later imposed certain obligations on the employer, such as to provide a safe place to work, safe tools and appliances and reasonable carefulness in engaging workers. But certain defences developed during the succeeding fifty years for the employer's protection, mainly the following:

1. *Contributory negligence.*—If the employee's negligence contributed to the accident in the slightest degree he lost all right to collect damages.

2. *Fellow-servant doctrine.*—If the employee was injured as a result of the negligence of a fellow-worker, this barred his right to recovery on the assumption that by working with such person he assumed the risks of the latter's actions.

3. *Assumption of risk rule.*—An employee entering an employment was presumed to accept all the ordinary and customary risks of the employment, on the ground that he was paid for accepting such risks.

4. *Death limitation.*—In some States the right of action against the employer ceased with the death of the injured party. It was a personal right and if action was not begun by the injured party it could not be by his dependents after his death.

5. *Burden of proof.*—The burden was on the plaintiff to show the negligence of the employer, that the accident was the direct consequence thereof, and that his own negligence did not contribute to the result. In addition to these defences, it was a common practise for employers to insist that the employee, as a condition of employment, sign a waiver relieving the employer of all liability and thus contracting away his legal rights.

Beginning with the English law of 1880 these defences were later modified by court decisions and statutes so as to slightly alleviate the hard lot of the workman. The contributory negligence rule was changed in some States to the comparative negligence doctrine, whereby the workman recovered in inverse proportion to his own negligence. The fellow-servant rule was restricted in application to those who worked in the same department, and foremen and managers were no longer considered fellow workers. Failure to comply with safety statutes was made *prima facie* evidence of an employer's negligence, and increasing burdens were placed upon the employer. Nevertheless, the system up to 1910 was most unsatisfactory from every standpoint, as shown later.

**Liability insurance.**—Since the injured employee might sue the employer and recover damages it was necessary for the employer to protect himself against loss by reason of judgments rendered against him in such cases, which judgments were occasionally very large. He purchased, therefore, a liability policy, under which an insurance company partly assumed the risk of paying such judgments as injured workmen might obtain. This type of contract is still valuable in States where the compensation system has not supplanted the negligence system, to furnish insurance against liability to others than workmen, and as covering quasi-employees whose status may be doubtful.

**Liability policy.**—In the ordinary contract in a stock company the insured paid a premium which was based upon his payroll, the rate being quoted per $100 of payroll. The probable payroll was estimated at the beginning of the year and an initial premium paid which was to be added to or deducted

from, at the end of the year, as the ultimate payroll happened to be larger or smaller than that estimated. The policy covered loss and expense from legal liability, determined by a court action or by a settlement with the injured party; the company agreed and in fact insisted upon defending all suits brought; and also furnished bonds and paid interest arising out of suits. It also assumed the expense of immediate surgical relief. The liability of the company was limited to $5,000 for an injury to one person in one accident, and $10,000 for injuries to more than one person in one accident, subject to the $5,000 per person limitation. All damages in excess of these amounts the employer paid unless for an extra premium he purchased a policy with higher limits. Employees whose compensation was not included in the estimate, employees of contractors and subcontractors and persons employed contrary to law were not covered. The policy ran for a term of one year but might be cancelled by the company or the insured upon notice, in the former case the insured paying a pro rata premium, and in the latter case a short rate, later described in connection with the fire insurance contract (Chapter XIV). The insured agreed to give prompt notice of accidents and claims to the company, not to settle claims or to admit liability, to furnish immediate surgical relief, and to assist the company by furnishing information and transferring all his rights to it by subrogation. The company had the privilege of inspecting the premises and books of the insured.

Liability rates.—While rate-making was originally an activity of the individual insurer the inherent co-operative nature of the process of basing charges upon past experience made common action desirable. This took the form of an association of liability companies which, acting jointly, issued a manual of rates supposed to be binding upon all. The obstensible definiteness of these manual rates was seriously impaired, until recent years, by competition, in the form of rate reductions by one expedient or another. The original association, however, was later replaced by a Bureau, established and maintained by the companies for the promulgation of rates. While some companies are not members of this Bureau, we may regard liability rates as in general fixed by actuaries, commonly employed, and a Bureau maintained by general consent.

Manual rates are made for classifications of industries, said classifications being based on the nature and hazard of the in-

dustry. Thus, while the rate for a clothing store may be 23 cents per $100 of payroll, the rate on a flour mill may be $2.25. These rates, however, are not for clothing stores or flour mills in any particular location, and constitute no more than a starting point for ascertaining the rate charged the insured. They merely represent the average variations in hazards between industries, as deduced from experience all over the country. In order to find the rate for a particular flour mill located in a given State a modifying factor must be applied to this general rate. Thus, we may find that in Arkansas the rate is 110 per cent of the general rate of $2.25, or that in Florida the rate is 50 per cent of the general rate of $2.25. It may happen, of course, that in some States the rate is exactly 100 per cent of the general rate. An examination of the factors which enter into the making of a rate will show the reason for this arrangement.

The liability contract protects against hazards of two types. There is, first, the accident hazard or the chance of an employee being injured in the industry; and second, the negligence hazard, or the probability that he will be able to prove the employer liable for damages. The accident hazard varies between industries, while the negligence hazard varies with the laws of the different States. The rates to cover these hazards are derived from past experience and it would be possible, theoretically, to gather the past experience on flour mills in the State of Arizona and to base Arizona's rates solely on that experience. But practically, this would be impossible, because the amount of experience that could be derived from this one State on flour mills and some other industries would be woefully inadequate, due to their insignificant number. There would not be sufficient risks for the law of average to function properly. So it is with other industries in other States, and to avoid this difficulty the country as a whole is taken for comparisons between industries, the assumption being that the difference in hazard in general between industries holds true in any particular State.

In collecting and using this information for making rates the "pure premium" is first calculated by a comparison of the losses incurred with the payrolls in order to find the losses per $100 of payroll. At any given date, however, there are

many claims and suits still unsettled and some estimate of the ultimate cost of these must be made. The pure premium is multiplied by a factor in order to derive the ultimate loss per $100 of payroll and also by another factor to allow for the increasing sympathy of juries, leniency of courts and modifications of employers' defences, all of which cause the experience to grow gradually worse. To this result must be added a sum sufficient to cover expenses and, in a stock company, profit; these together constitute the "loading." The result is the manual rate. This must be modified for application to individual States. A comparison is made of the experience of companies in Florida with the experience in the United States as a whole, and it may be found, for example, that Florida results show losses per $100 of payroll only half as great as the average for the United States. If $2.25 is the manual rate for the classification, then, the rate for the same classification in Florida is 50 per cent of that figure, or $1.125.

These rates are for policies containing the standard limits previously described; if the insured desires limits of $10,000 and $50,000 the premium will naturally be increased. In the past considerable underwriting judgment has also been necessary to take account of factors which could not be mathematically considered in the manual rate, or for which past experience did not furnish a reliable guide. Since one flour mill may differ considerably from another in hazard, even when located in the same State, some allowance for the features of hazard of a particular risk is also necessary.

**Principle of compensation.**—The liability system was most unsatisfactory for the following reasons:

1. It was based upon personal fault, whereas many accidents were due to no personal fault.

2. No damages were recovered by injured workmen in from 25 to 33 1-3 per cent of the cases.

3. The compensation paid bore no relation to the needs or justice of the case. Juries gave notoriously uncertain verdicts.

4. Under the contingent fee system, on the average, one-fourth of the damages recovered by workmen went to lawyers as fees.

5. Damages were awarded only after lengthy litigation, and in the meantime the workman or his dependents often suffered severely.

6. Employers were forced to spend large sums of money in the defense of suits, some legitimate and some groundless.

7. Unpleasant relations were frequently created between employers and workmen because of suits and their results.

8. Insurance was for the benefit of the employer and not the injured party. In fact, the insurance company was obligated to defend suits brought by workmen.

9. The community was assessed for the exorbitant cost of the legal machinery necessary to handle the multitude of cases.

10. Inability to recover damages for injuries led to destitution, reliance upon charity and a lowered standard of living. When the close relation between employer and employee ceased, when industrial relations became complicated, when the worker became an impersonal cog in a great organization and accidents multiplied through the introduction of machinery, it became economically desirable that the negligence theory be replaced. This was hastened by the growing social desire for safety promotion and the improvement of working conditions. Compensation scraps the theory of negligence and holds the industry responsible for an industrial accident. It provides by law a definite compensation for injuries instead of leaving this to be determined by a lawsuit and it makes the employer, as the representative of the industry, liable for the payment of this compensation. Students of economics will recognize that this is no hardship on the employer since, except in the most unusual cases, he passes this cost on to the consumer in the price of the product. The consumer of the goods, therefore, pays for the wear and tear on human machinery exactly as he always did for the wear and tear on metal machinery, cost of raw material, wages of labor or any other essential factor in the production of the goods.

**The nature of compensation laws.**—Compensation laws are broadly divided into two groups, the compulsory and the voluntary. In some States the adoption of the compensation principle is compulsory for certain enumerated "hazardous" industries of a private character and voluntary for others, but is usually compulsory in regards to employees of the State and for nearly all employments; and in still other States is entirely voluntary for employments in general.[1] But where acceptance

[1] See Appendix XXI.

of the compensation principle is voluntary or optional the privilege is more nominal than real, because in the absence of acceptance the employer loses certain legal defences and the workman certain benefits, which loss makes it to their interest to accept the compensation act. An employer who belongs in one of the specified groups or who voluntarily elects the compensation system thereby exchanges his liability to be sued for damages for a specified and limited liability under the compensation law. Failure to accept the compensation law, however, subjects the employer to the loss of the common-law defences previously referred to. The employee is presumed to accept unless he specifically declines.

General opinion now seems to incline toward the universally compulsory act as the best form of law. It is very common, however, to find that State laws do not apply to casual labor, workers who perform duties at their homes, domestic servants and farm laborers. Some State laws do not cover what are considered as non-hazardous industries and small establishments.[2] These exceptions have little to recommend them except expediency and are rarely founded upon any sound reasoning. Prior to the adoption of the compensation principle it was a general practise for employers to compel prospective employees to "contract away" their legal remedy for injury but this is universally prohibited by compensation acts.

**Accidents covered by the laws.**—A common definition of the injuries covered is "disability or death resulting from an accidental personal injury sustained by the employee arising out of and in the course of his employment, except where the injury is occasioned by the wilful intention of the injured employee or where the injury results solely from intoxication." In the latter two cases, no compensation is payable under the act. It is sufficient to point out, without entering upon the various interpretations given by the courts of the above provision, that an injury "in the course of employment" may not "arise out of" it. For instance, a workman unloading rails may attempt to light a cigar and set fire to his clothes. The accident occurs while working but is not connected with the duties for which he is engaged. In some States the laws cover accidents in the course of employment, whether arising therefrom or not, and in

[2] See Appendix XXI.

a few States the laws cover industrial disease. The acts apply to accidents occurring within or without the State in about one-third of the States, in another one-third only to accidents occurring within the State, and in the remaining States the laws are not explicit in this respect.

**Beneficiaries.**—Where the employee is injured he himself is entitled to the benefits, while in case of death they go to his beneficiaries. Although many States provide a uniform sum or percentage of wages, in at least eighteen States the compensation varies with the number and character of dependent persons. Children are provided for in many cases until they are sixteen to eighteen years of age, and widows until remarriage. Some limitation is usually placed upon the number of dependents; for example, an act may include only dependent parents, widow or widower and children who are under sixteen years of age. If none of these exist, brothers and sisters may be brought within the scope of the act. Aliens ordinarily receive special treatment.

In order to reduce the costs of the act to a reasonable figure, the many minor injuries are eliminated from consideration by the provision of a "waiting period." Usually, the loss of time involved must amount to at least two weeks before compensation becomes payable. In some States, the compensation dates from the date of the injury and in others from the expiration of the waiting period, the latter being more common. Such a provision is often a hardship upon the workman but seems necessary to prevent the otherwise excessively high cost of the act, to reduce administrative work, and to prevent pretended injury.

**Benefits paid.**—The laws vary widely as to the scale of benefits paid. Four contingencies are practically universally covered; total disability, partial disability, specific injuries and death. Of these, some are permanent and some temporary. It will be sufficient to cite one fairly typical law which is neither extremely liberal nor exceedingly strict, that of Pennsylvania. Arranging and summarizing its provisions in order to save space and the reader's time, they are as follows:

1. *Total disability.*—For the first 500 weeks after the tenth day of total disability, 60 per cent of the wages of the injured employee, not to exceed $12 per week nor to be less than $6 per week. The total payment is also limited to $5,000.

2. *Partial disability.*—Sixty per cent of the difference between the wages of the employee before injury and his wages after the injury, but not more than $12 per week nor less than $6 per week, payable for a maximum period of 300 weeks.

3. *Specific injuries.*

Loss of one hand—60 per cent of wages for 175 weeks.
Loss of one arm—60 per cent of wages for 215 weeks.
Loss of one foot—60 per cent of wages for 150 weeks.
Loss of one leg—60 per cent of wages for 215 weeks.
Loss of one eye—60 per cent of wages for 125 weeks.

Loss of two members—60 per cent of wages for the aggregate of the periods specified for each. If such accident should cause total disability the above benefits are not to exceed $12 per week nor to be less than $6 per week.

4. *Death*:

a. To a child or children if there be no widow or widower entitled to compensation—30 per cent of the wages of the deceased with 10 per cent additional for each child in excess of two. The maximum is 60 per cent of wages for 300 weeks.

b. To a widow or widower without children—40 per cent of wages.

c. To a widow or widower with one child—50 per cent of wages.

d. To a widow or widower with two children or more—60 per cent of wages.

e. In the absence of any of the above dependents, then to a dependent father or mother—20 per cent of the wages if such person is partially dependent and 40 per cent if wholly dependent.

f. In the absence of any dependents described above, then to a dependent brother or sister—15 per cent of the wages of the deceased and 5 per cent additional for each additional brother or sister, up to a maximum of 25 per cent.

5. *Burial expenses.*—In all cases the reasonable expenses of the last sickness and the burial of the deceased are to be paid to the amount of one hundred dollars.

6. *Medical and surgical aid.*—During the first thirty days after disability the employer is required to furnish reasonable surgical, medical and hospital care, medicines and supplies up to the amount of one hundred dollars.

Since the purpose of the compensation act is to provide support to the injured person or his dependents, the benefits are paid weekly or monthly in the same manner as the wages were paid. The injured party or his dependents may, however, apply for the entire amount in a single payment, and if they are able to convince the compensation board of the desirability of such an adjustment the board may grant it with proper allowance for interest. In some States six months must elapse before such an application can be made, this provision being designed as a protection against a hasty decision on the part of the injured party or the beneficiary. It will also be noted from the above scale of benefits that the indemnity promised to the injured party depends not only upon the wages which he was earning at the time of the injury but also upon the number of persons dependent upon him, the closeness of their relation and the degree of dependency.

The provisions regarding administration may be grouped under four heads; the reporting of injuries, agreement between employers and employees, hearings of disputed claims and appeals of the courts. The laws of the States with reference to accident-reporting are as varied as the colors of the rainbow. Only nineteen require all accidents to be reported, while many require the reporting of accidents resulting in over two or three days disability. In some States all employers are required to report accidents; in others only a few are so required. In addition accident-reporting laws are often inadequately enforced.

**Settlement of claims.**—It is common in compensation acts to provide for the settlement of claims by injured workmen through voluntary agreements with employers. In such cases the agreement must be filed with the compensation commission for approval, in order to protect the employee against persons who would otherwise attempt to compromise on the amount justly due him. Three-fourths of the States having compensation laws have an arrangement of this type. If the claim cannot be amicably adjusted in this manner the rights of the parties must be decided by some State tribunal. In some States, however, where all risks are insured in a State fund, the compensation is paid by the fund upon the application of the injured employee or his dependents.

In the States where no compensation commission exists the claims in disputed cases are presented to the inferior courts for settlement; where commissions exist, the claims go either to the commission or to some subordinate officials appointed by the commission. These latter consist either of individual members of the commission, arbitration committees or referees. In all cases the referee or arbitration committee is given most of the powers of a court, but legal forms and procedure are eliminated as far as possible in order to preserve the rights of the injured party and to avoid technicalities. The object of these provisions is to keep as many cases as possible out of the courts, which used to be swamped under the negligence system with suits for damages.

The parties are not wholly deprived of their right of appeal to the courts, however. While the findings of the commission or its referee as to facts are considered as final, matters of law are treated otherwise. Thus, either party may appeal to the courts for the interpretation of an expression in the act,—as for example, what is an injury?—but not to decide whether, for example, a person was intoxicated when injured, which is a matter of fact.

Insurance requirements.—One of the most important provisions of a compensation act is that relating to insurance. It would not be sufficient to make employers liable for compensation without providing some guarantee that the same will be paid. In the majority of States this is accomplished by compelling the employer to insure the risk. In five, however, the only security the employee has is the provision making compensation payments preferred claims against the property of the employer. In the States where insurance is required the arrangements vary.[3] In some cases, a State insurance fund is put in operation which is virtually a mutual association supervised by the State and this made the sole acceptable form of insurance. The State here has a monopoly of the compensation insurance business. In other States the employer may insure in the State fund or in some recognized mutual. In still others he has the choice of the State fund, a mutual association or a stock company. These do not always compete on equal terms, the stock company's rates in some States being fixed at a figure higher

[3] See Appendix XXII.

than the other insurers. In most of the States self-insurance is permitted, the employer being required to comply with more or less strict requirements, as the case may be, in order to satisfy the commission that he is able to carry his own risk.

Space does not permit a summary of the provisions intended to prevent accidents but it may be said that in general they are woefully inadequate, the laws being usually very defective, their enforcement very lax and the inspectors insufficient in number.

The above summary is merely intended to give a general survey of the nature of the compensation laws existing in the United States. It will be apparent from what has been said that the laws all vary to a greater or lesser degree and an employer can only ascertain his duties and an employee his rights by a careful inspection of the law in the state or states where they are engaged in doing business.

**Methods of insurance.**—We find four methods of insurance in vogue for the protection of employers against the legal liability imposed by a compensation act; insurance in a stock company, in a mutual or reciprocal, in a State fund, or self-insurance. Which of these forms is superior has not as yet been finally determined. All of them are competing for business and rival claims are urged upon the attention of the prospects regarding the respective benefits under these plans. Here we can only mention the advantages claimed by the champions of the various methods and the disadvantages set forth by their opponents.

The stock company is a corporation organized for profit, having a capital stock on which it is desired to earn dividends. The contract it offers is a perfectly definite one, the premium being named in advance and the policy-holder never being called upon to pay anything additional. If the premium collected is inadequate the deficit is met from the capital and surplus of the stockholders. The insurance laws have been framed to provide a careful regulation of the methods followed by such companies in doing business and are designed to insure their solvency, a feature which is very important in compensation insurance, where payments to an injured party often extend over many years. The capital and surplus together form a margin to work with which protects the policy-holders, a good

company having a capital and surplus proportionate to the amount of business it does. This fund protects the policy-holder against large and unforeseen catastrophes and unfortunate underwriting experience. Ordinarily the stock company is of considerable size and does business over a wide territory. As a result its risks are of a most diverse character and widely scattered, two features which, as we have seen, conduce to the proper and regular working of the law of average on which insurance is founded. It is also argued that the best management will be found in the stock company because the self-interest of the stockholders will impel them to see that the concern is economically and efficiently managed. The management of the stock company is theoretically free from political entanglements and permanent in character. The stock companies obtain their business through a system of agents who receive a commission on the business they write. In return, it is said that the agent's services are valuable in selecting risks, in educating the policy-holder and in giving service to the employer.

The mutual association[4] has no capital stock and consists of a number of employers who form a group in which every member is an insurer as well as an insured. The policy-holders control the management and since no dividends are paid a member is entitled to any savings which result on the estimated cost but likewise assumes the obligation of making good any deficit. Since there are no dividends to be paid and usually very little in the way of commissions to agents, the mutuals claim to be able to do business at a much lower cost than the stock companies. The association is controlled by the policy-holders and since the officers are usually policy-holders, it is maintained that the association will always be operated in the interest of, and for the benefit of the policy-holders. Although the stock company operates over a wider territory, the mutual in a definite locality has the advantage of strictly enforcing high standards of prevention and protection which reduce accidents and consequently cost. In addition, the risks may be very carefully inspected so as to give a select group on which losses may be much lower than on a group of risks indiscriminately selected. It is possible for a mutual to render a great service in the prevention of accidents, because the cost of insurance is directly dependent upon these accidents and any accidents which the

[4] See Appendix XXVII.

employers prevent are unquestionably and directly a benefit to themselves. Such prevention would also be beneficial in the stock company if the rates were lowered as a consequence, which is the case under the experience rating system described later.

The reciprocal is in many respects similar to a mutual. Here however, an attorney-in-fact who controls the operation of the reciprocal is appointed to represent the members. The members are liable for assessments as in a mutual and there is often some attempt to limit the extent of an assessment, although the legality of this is questionable. It will be evident that the success of the reciprocal is very largely dependent upon the integrity and ability of the attorney-in-fact.

The State fund is a mutual created and managed by the State and usually receiving certain privileges therefrom, such as immunity from taxation or the assistance of a fund to start business.[5] The rates for insurance are usually lower in the State fund and may be reduced still further by the return of dividends. It is claimed that the insurance is cheaper by reason of efficient management in the interests of the public. Inasmuch as some of the expenses of this fund are often defrayed by the State it is difficult to compare satisfactorily the cost of this insurance with the cost under the stock and mutual plans. In some cases the law provides that insurers in this fund are absolutely relieved of all liability for payments of compensation, and under these circumstances the employer gets absolute security. The State fund usually provides no indemnity against *liability,* however, so that in cases where through a legal technicality the injured party might sue the employer, it would inadequately protect him. This fund is sometimes made a monopoly, and in this case it eliminates all the vast wastes of competition and avoids the expense of duplication of personnel and facilities which otherwise would be necessary. It is claimed, on the other hand, that this is an invasion of the private rights of individuals and that the State is virtually depriving private insurers of the right to do business. The State fund, if of a competitive character, forms an effective and valuable means of compelling reasonable rates and efficient service on the part of the private companies. Many such funds have been criticized, however, as

[5] See Appendix XXVIII for a statement of a State fund's operation.

being wasteful and inefficient. The policy-holders have only an indirect voice in the management of the enterprise. In case of insolvency, either employers will have to contribute through assessments or else employees will suffer through failure to receive the compensation due. It is important to notice the argument that, since many compensation laws make insurance compulsory, agents and their commissions are an unnecessary waste and that if the State compels a man to insure it should also secure for him a means of doing so at the least possible cost and in the best manner.

Self-insurance is the carrying by an employer of his own risk by periodically setting aside amounts in a fund to pay losses when incurred. By this method the employer saves all the expense incidental to the organization of an insurance company and is assured of paying only the cost of his own industry. He need not worry about the equitableness of rates as between his industry and other industries, or between himself and others in the same industry. This plan is most directly connected with the subject of accident prevention. Any accidents prevented will immediately and directly accrue to the advantage of the individual employer and it consequently furnishes a powerful incentive to provide every means of safety; in other plans the amount saved through accident prevention may or may not go to the employer who makes the greatest efforts in this direction. But the employer assumes all the trouble and expense which would be taken care of by the insurance company if he insured in a private company, and the employee runs the risk of finding the employer unable to pay claims when due. A catastrophe involving a large loss may exceed the employer's assets, forcing him into insolvency. Furthermore, it is difficult for the State to keep watch of his financial condition for the protection of employees; an employer who is solvent today may be insolvent tomorrow. The employer is directly interested in reducing claims and may therefore try to deprive workmen of the benefits properly due them; but it has recently been claimed that other insurers have tried to do this same thing.

**The compensation policy.**—This differs from the liability contract in that the amounts payable are limited only by the compensation law of the State and the contract is as much for the protection of the employee as the employer. The provisions relating to premium payments are very similar to those

of the liability policy and likewise the sums and events covered, with the exception noted above. The contract is for one year, with privilege of cancellation by either party. Certain legal provisions are incorporated which make the contract a real protection to the employee. The provisions applying after an accident are very similar to those found in the liability contract, with the exception of that relating to insurance in more than one company. The provisions of the contract are very clearly set forth in the document itself, which is reproduced in an appendix.[6]

**Workmen's compensation rates.**—Workmen's compensation rates, like liability insurance rates, are made by concerted action. The most important rate-making body is the National Council on Workmen's Compensation Insurance, a federation of the State rating boards and bureaus throughout the United States, whose object is to form a central clearing house for the exchange of ideas and for the solution of statistical problems connected with rate-making. The work of this organization is chiefly accomplished through committees, on which the various members are represented, the results of the committees' efforts being adopted by the members of the council. Many States have compensation rating boards, which exercise jurisdiction over the rates in their territory. A member is not compelled to adopt the conclusions reached by the National Council. Because of its national character and the completeness of its representation, however, the National Council is probably the most important single rate-making body in the United States.

Compensation rates may fundamentally be divided into two classes; manual rates and merit rates. The former are published in a manual and show for each classification of industries the rate which it would be necessary to charge in order to pay the average losses and expenses of that classification for the country as a whole and yield a reasonable profit to the company.[7] But the manual rate, while most important as a starting point for all rates, is not necessarily the final rate charged to the purchaser of insurance. In order to do justice between individual employers schedule rates have been devised which take into account the tangible features of the individual risk, and also experience rates which are based upon the past

[6] See Appendix XXIII.
[7] See Appendices XXIV and XXV.

history of the risk in question. We will begin, however, with a consideration of the manual rates, inasmuch as these form the basis of the compensation rating system.

A rate to be adequate must be sufficient to cover three items of cost; (1) the pure premium which covers the amount expected to be paid in benefits, (2) the loading for expenses sufficient to cover the cost of management and obtaining business and (3) the profit of a stock company. In computing the pure premium it is necessary to obtain an amount which will be sufficient to cover not merely the initial benefits paid under policies but the ultimate benefits, which may extend over a long period of years. This involves an estimate of the outstanding liabilities of a compensation insurance company and renders the problem more difficult than it otherwise would be. Likewise, we find that many industries are so inadequately represented in some States that the experience of such industries classified by States is too meagre for rate-making purposes. To avoid the latter condition a statistical assumption must be employed. This latter point must be immediately disposed of as it is a fundamental part of the compensation rate-making system.

Since, for example, we cannot depend upon the past experience on coal mining in Michigan to fix a rate for coal mines in that State, nor upon the experience on clothing manufacturing in Arizona to determine a premium on this industry in that particular State, and since, in fact, there are many industries which are not adequately represented in all States, the difference between the pure premiums on various industries must be determined primarily on the basis of the experience on each industry in the country as a whole or at least in several States. This means a comparison of the losses per $100 of payroll on contracting work, for example, as compared with the losses per $100 of payroll on bakeries. But the various States have different compensation laws and the losses will be influenced by the provisions of the acts. In other words, as the losses stand, they are not comparable, and before being added together to arrive at the general experience, must be reduced to a common level. For this purpose a reduction factor or factors must be used which will approximately measure, for instance, the difference between New York and Pennsylvania conditions. One reduction factor is inadequate for the purpose and several have therefore been employed. For death and permanent total dis-

ability losses, the average cost per case is determined from past experience in each State, and by multiplication there can be found what New York accidents would have cost in Pennsylvania or what Pennsylvania accidents would have cost in New York. As regards minor injuries and other benefits, the two States are reduced to a parity by the comparison of payrolls and losses, thus finding what the cost of the benefits paid in Pennsylvania would have been if the payroll of Pennsylvania were the same as the payroll of New York. These two types of calculations are necessary because the proportion of serious injuries to the total number varies between States, due to the character of the industries.

When by this method one or more reduction factors have been found for each State, the losses for the country as a whole can be grouped together for individual classifications of industries and occupations and compared with the payrolls of individual classifications. This comparison shows the loss which is to be expected upon each $100 of payroll, on the average, in each classification. This might be 56 cents for automobile manufacturing or $2.29 for can manufacturing, to assume figures for illustration.

The next problem is to pass back from the premiums computed on the basis of combined experience to premiums which will reflect the different conditions prevailing in individual States. The rates computed above are for average conditions, while some States are above and some below the average. Evidently this may be done by reversing the process followed in finding the reduction factors, and the factors accomplishing the result are called translation factors. The translation factor for death and permanent total disability is found by the average-value method described above, while the factor for "all other" and "medical" losses is the reciprocal of the reduction factor for the same. Thus, from the general experience on individual classifications, State premiums for individual classifications are arrived at. In Pennsylvania, for example, the premiums on automobile and can manufacturing, respectively, might be assumed to be $1.00 and $4.00.

One further factor must be taken into consideration. In the above calculation the experience of past years, say 1916-17, served as a basis; but the premiums are to be computed for business to be written in 1920. Losses may be increasing or decreasing, relative to payrolls during this period. A rough

approximation to such increase or decrease is obtained by finding the loss ratios (losses to premiums) at the two dates, assuming that the rate of premium was the same. If the loss ratio of 1916-17 was 56 per cent. and that of 1919 was 53 per cent., it would indicate that the premiums we have found should be discounted by 5.4 per cent. to allow for declining losses. Thus the above rate illustrations would become 95 cents and $3.78, respectively.

To this must be added an allowance for expenses and profit, and the result will be the manual rate. Suppose that in States where ordinary taxation is levied, expenses are found to equal 38 per cent. of the manual rate, distributed about as follows:

| | |
|---|---|
| Acquisition Cost | 17.5 per cent. |
| Home Office Administration | 8.0 " " |
| Inspection and Accident Prevention | 2.0 " " |
| Adjustment of Claims | 7.0 " " |
| Taxes | 3.5 " " |
| Total | 38.0 " " |

Then the above pure premium of 95 cents must be increased to $1.53 in order to cover these expenses. The amount of $1.53 (the manual rate) is found by dividing the pure premium (95 cents) by (1 — .38). In the rate manual this information may be presented in various ways. For example, the rate manual will furnish the name and description of each classification, a special number designating the same and a symbol indicating the manual rate. By reference to separate sheets, the meaning of the symbols in dollars and cents may be found for any individual State.[8] Another method consists in the preparation of a separate sheet for each State, containing all the classification numbers and opposite each its manual rate for that State.

**Merit rating.**—The manual rate in compensation insurance may be superseded by (1) a schedule rate or (2) an experience rate. We will proceed to consider these two systems of rating in the order given.

**Schedule rating.**—The system of schedule rating is designed to measure the visible elements of hazard and to fix the rate according to the results of this measurement. The process includes briefly the following steps:

a. The establishment of certain standards of safety in industrial plants and operations.

b. The inspection of risks to determine how nearly such risks approach or excel the standards established.

[8] For a sample page of manual and rate sheet see Appendices XXIV and XXV.

c. An increase or decrease in the rate for deviation from the standards established.

A schedule is usually divided into three principal parts.[9] The first portion deals with the structural hazards, such as the character of the building and the equipment. The second portion covers the mechanical hazards, such as the machinery employed in the various operations. The third portion refers to the morale of the plant, including safety organization, accident prevention, etc.

Under each of these sections systems of adding to or subtracting from the manual rate are applied. For defects to which only a limited number of employees are exposed the process of adding a flat sum to the premium is followed, because this hazard consequently will not vary with the payroll. For defects which affect all kinds of industries equally there is added a certain sum per $100 of payroll in order that the charge may vary with amount of insurance and not according to the rate. For defects whose influence varies with both the number of employees and the nature of the industry there is added a percentage of the manual rate, which therefore causes this charge to vary, not only in accordance with the rate charged, but also with the amount of payroll.

The advantages of schedule rating are the following:

a. The establishment of different rates for risks which are within the same general classification but vary from the average risk of that classification.

b. The direction of attention of the employer to specific defects which require a remedy.

c. It enables the insured to reduce the rate by remedying the bad features of his risk.

d. It furnishes an incentive for accident prevention.

In its present state, however, the system is open to the criticism that it considers only the tangible elements of hazard and does not adequately measure the intangible elements. Another difficulty is that there is not sufficient statistical justification for the various charges and credits involved. In this connection it must be remembered that it is very difficult to say how many additional cents of loss are added by any particular unguarded machine. As applied thus far the schedule system has resulted in a deficit in premiums to the companies,

[9] See sample page of schedule in Appendix XXVI.

whereas the net result of the application of the system should be the collection of an equal amount of premiums from the total number of risks. The loss in premiums from risks which are above the average should be exactly counterbalanced by the additional premiums collected from risks which are below the average. In practice, also, the establishment of arbitrary credit limits has checked the incentive towards the prevention of accidents.

**Experience rating.**—This is designed to measure both the intangible and tangible elements of hazard by comparing the loss experience of the individual risk with the loss experience of a group of risks, with the idea of modifying the manual rate favorably or unfavorably as the comparison is favorable or unfavorable. Ordinarily such a plan is limited to risks with a payroll of a certain size and a loss experience covering three or four years. The process is divided into the following steps:

a. The insured submits a schedule showing his audited payroll for the required period and the losses which have occurred during that period, classified according to their character.

b. These schedules are analyzed to find what proportions of the premium are paid for deaths and permanent total disability and for temporary disability and medical benefits.

c. The losses are similarly analyzed so as to show in detail the actual experience of the risk in question.

d. If the comparison of losses with premiums is favorable, the insured is entitled to a percentage reduction of the manual rate and if unfavorable, the manual rate is increased.

The advantages of experience rating are the following:

a. It enables the owner of a good risk to obtain some reduction from the rate charged the average risk of the class.

b. It is a form of merit rating which is applicable to all risks, whereas schedule rating could hardly be applied to an industry like the contracting business.

c. It covers the invisible elements of hazard.

d. The experience rating plan, if satisfactorily worked out, gives the insured in a stock company or mutual the principal advantage of self-insurance; that is, efforts toward prevention directly benefit him by the reduction of his premiums.

**Liability and compensation insurance reserves.**—As with other forms of insurance, the state has here intervened for the protection of the policy-holders. In the early days of liability insurance, the reserves kept were at the discretion of the insurance company and were based upon the officials' estimates of what was necessary. The protection afforded to the policy-holder by the State must provide that the insurance company shall not use the premiums of the policy-holder until it renders the protection for which such premiums have been paid, an object which the law accomplishes by two kinds of reserves. These are (1) the unearned premium reserve and (2) the loss reserve.

The unearned premium reserve consists of the unearned premiums as ascertained by an approximate method of calculation. This reserve in liability and compensation insurance is no different from the reserve in fire insurance. Supposing the examination of the company to be made in December, some policies have been written in January and some in December, some in February and some in November, etc., so that the average life of the policies is six months. All compensation and liability policies are written for a term of one year, so that in December one-half of the premiums written during that year may be considered as earned and one-half as unearned. The unearned premium reserve is therefore that proportion of the premium represented by the ratio of the unexpired policy period to the total term of the policy. The New York law reads as follows: "The superintendent of insurance shall charge as liabilities, in addition to the capital stock, the premium reserve on policies in force, equal to the unearned portions of the gross premiums charged for covering the risks, computed on each respective risk from the date of the issuance of the policy." It is customary for state insurance departments to accept a computation of the premium reserve on the yearly basis indicated above and fully described in the chapter on the fire insurance reserve, although an unearned premium reserve calculated on a monthly basis would be more accurate.

In view of the extensive treatment of the subject in the chapter on the fire insurance reserve, we need only summarize here the reasons for an unearned premium reserve, which are:

1. The premium for the unexpired term must be consid-

ered as held in trust for the policy-holder, the product for which it was paid having not yet been delivered.

2. It is essential to know the unearned premium and the reserve held against this liability in order to determine the solvency of the company.

3. The unearned premium reserve would be necessary for re-insurance premiums if the company desired to suspend business and to re-insure its risks in another company.

If it were not for the peculiar nature of the liability and compensation insurance business the reserve indicated above would be sufficient. The liability of a fire insurance company on a fire insurance policy is determined at the date when the policy expires; no fire occurring after that time can increase the company's liability and all those which have occurred during the term of the policy are already known. In fact the claims upon most of them have been settled. In the liability and compensation business the event insured against must also occur within the term of the policy but, as explained previously, notices and claims will be made after the term of the policy has expired, and the future liability of the company by the nature of the circumstances is somewhat indefinite. Law suits may be started which will be in the courts for years after the term of the policy has ended. Most of the company's payments are therefore made on a policy after the term of that policy has expired, and at the moment of examination its obligations are mainly in the future and not in the past. Against these obligations some reserve must be provided and this is the function of the loss reserve.

The loss reserve may be defined as that sum which, together with interest, will be sufficient to meet the known and unknown obligations which may arise from accidents which have already occurred. It will be recognized that the obligations on future accidents will be met out of the unearned premium reserve and the obligations on past accidents out of the loss reserve. The loss reserve will obviously be more difficult to compute than the unearned premium reserve and it is not surprising that the lawmakers have not been highly successful in the past in providing a proper standard for it. Nevertheless a proper loss reserve is of the highest importance, because it insures the future solvency of the company and gives the employer some assurance that the claims made by employees will be provided for.

The first and prime requisite of this reserve is sufficiency, and this is the principal object which lawmakers have been working to obtain, but it is complicated by the fact that an excessive reserve is undesirable. Such excessive reserve is derived from premiums which must be thereby unduly increased, and when later the reserve is found to be excessive, the excess goes as dividends to the stockholders, or if a mutual company, is returned to policy-holders other than those who contributed it. A company might also use the excess reserve so accumulated for purposes of competition. In addition to this difficulty, changing conditions make the experience of the past inapplicable to the future. This will be more readily observed by examining some of the bases which have been used for the calculation of the loss reserve.

These methods briefly stated are as follows:

1. **The individual estimate method** consists in an estimate by the insurance company officials of a sum which will be necessary to cover each particular case. It means that each case is considered individually according to the circumstances surrounding it and it therefore entails an enormous amount of work. In the past the insurance officials have been inclined generally to underestimate their outstanding liabilities. This method fails to establish any common standard, so that while one company may be setting aside excessive amounts, another may be making woefully inadequate provision for the future.

2. **The pure premium method** assumes that since the pure premium is supposed to represent the probable loss costs on policies, it may be used as an index of the necessary reserve. The pure premium minus what has already been paid out in losses should give the required reserve for future liabilities. This method would be correct if pure premiums were always accurate and adequate, but if they are not the method falls to the ground. What the State is interested in is, not what actually remains out of premiums to meet future liabilities, but what sum the company should have on hand to meet future liabilities.

3. **The average cost method** depends upon ascertaining from past experience the average cost of a notice of injury, a claim by an injured party and a suit to recover damages or compensation. Having the experience of the past on notices, claims and suits, it was thought easy to apply this knowledge to the number of notices, claims and suits at the time of exam-

ination and subtract from the total what had already been paid on such notices, claims and suits. But the records of the insurance companies of notices in some cases were far from satisfactory, the method gave the companies an opportunity to manipulate the figures, and it was difficult to name a suit-average cost in the law because of the great variation between localities and different classes of business.

4. The actual loss ratio method consists in ascertaining from past experience the ratio of losses to gross premiums. A similar loss ratio is then assumed for the policies under consideration and from the total amount so ascertained is deducted any payments already made by the company. This method is more simple in application and may be more easily checked by the authorities. It assumes, however, that the experience of the past will be true of the future, and if conditions are radically changing this may not be true. It has also the same objection as the pure premium method in that it is dependent to some extent upon premiums, which may not be correct.

5. The fixed loss ratio method substitutes for the loss ratio of actual experience a ratio prescribed by law. This legal ratio is based upon experience but upon the experience of many companies instead of one. This is the method most recently adopted and appears to work better than the former methods in use. These various methods have often been combined. Thus, in some States the average cost method was used for policies which had been in existence for some time and the loss ratio method was used for policies more recently written, subject, however, to checking by the average cost method. The average cost method and the fixed loss ratio method have also been combined.

The law of New York will serve as a good illustration of the regulation now in existence. It must be remembered that while the law of New York can only affect companies doing business within that State, a list of such companies would include many of the prominent companies of the United States, and the law affects not only their business written in New York State but their total business. The New York law therefore forms a minimum reserve requirement for all companies doing any business within its borders. This law is divided into two parts, the first pertaining to the liability business and the second to the compensation insurance business.

With reference to liability insurance, the law provides:

a. $1,500 reserve shall be on hand for each liability suit being defended under policies written ten years prior to the date of the statement.

b. $1,000 reserve shall be on hand for each liability suit being defended under policies written five and less than ten years prior to the date of statement.

c. $850 reserve shall be on hand for each liability suit being defended under policies written three and less than five years prior to the date of statement.

d. For liability policies written during three years immediately preceding the date of statement, the reserve on hand shall be 60 per cent of the earned premiums, less all losses and expense payments made under such policies.[10]

It will be noticed that items a, b, and c above, are based upon the average cost method, while item d is the loss ratio method, 60 per cent of earned premiums being the assumed ratio of future losses to premiums.

For compensation insurance reserves the law provides the following:—

a. A reserve for all compensation claims under policies written more than three years prior to the date of statement equal to the present value of the determined and estimated future payments.

b. A reserve for all compensation claims under policies written in the three years immediately preceding the date of statement, equal to 65 per cent of the earned premiums of each of these three years less all loss and expense payments made under such policies.[11]

This law has been adopted in Massachusetts, Pennsylvania and in many other States of the union, but is not considered by insurance officials as entirely satisfactory. The average costs are based upon old experience which may not be of much value as far as the future is concerned. Also, it does not provide sufficient restrictions for new companies just entering business whose premiums may or may not be adequate. This criticism particularly applies to the liability portion of the business. It will also be noted that the percentage of earned premiums is

[10] But for the first of such three years, the reserve shall not be less than $750 for each suit being defended.

[11] Provided however that for the first year of such three-year period the reserve shall not be less than the present value of the determined and estimated compensation claims under the policies of that year.

a percentage of gross premiums which include expenses, so that a reduction in expenses would bring a reduction in reserves, which is far from logical. It has been suggested that the average cost method might be applied to the more recent policies as a check upon the fixed loss ratio method.

# Part IV

# FIRE INSURANCE

## Chapter XIII

# INSURABLE INTEREST IN FIRE INSURANCE

A common statement in texts on insurance is that policies of insurance relating to the loss or destruction of property promise reimbursement based on *indemnity*. On this principle the insured would always receive the actual cash value of the property at the time of the loss. This is not quite accurate, in view of the valued policies issued in marine and certain forms of casualty insurance and other less obvious violations of the principle; but it is true that the law has in the main gladly recognized the protection against moral hazard which is given by an actual interest in insured property approximately equivalent to the face of the policy.

Reasons for insurable interest.—The purpose of all property insurance is, therefore, to indemnify a loser. If only those who suffer loss are to receive reimbursement, none save those who may be injured should be permitted to secure protection, and then only to the extent that they are threatened with loss. Fire insurance, and life insurance covering the life of a debtor in favor of a creditor, present similar restrictions. But we have seen that the insurable interest of a person in his own life is usually unlimited, the courts of many States having decided that it is impossible to calculate the value of human life. In marine and casualty insurance also, the interpretation of insurable interest is relaxed. Fire insurance policies issued for more than the maximum possible loss, however, are considered over-insurance, and while in the absence of fraud or "valued policy laws" these policies seldom work harm, the total absence of any interest in the property makes an insurance policy on the same a mere wager. A person holding a policy of this type cannot gain by the continued existence of the property and is not interested in its preservation; on the contrary, he can make a profit by its destruction and the moral hazard is therefore tremendously increased. Periods of poor business and decreasing values have given ample proof of this. Where the value of the

property is difficult to ascertain and, as a result, excessive insurance is obtained, this same moral hazard attaches, though in a lesser degree. Heavier losses to the insuring companies and consequently heavier premiums for everybody are the natural results of a deficiency in insurable interest. Hence, as a matter of public policy, an insurable interest is desirable and even necessary.

The method adopted by fire insurance companies to protect themselves against these hazards is the careful selection of persons to whom they issue policies. It should be kept in mind that while we speak of insurance on property the insurance does not actually protect the property itself but is instead a personal contract protecting an individual or corporation. Therefore if the record of the applicant for a policy is open to suspicion the insurance company will probably refuse to grant a contract, particularly if the party has ever been involved in any of those losses which give rise to the suspicion that Providence has been assisted by human agency.

**What constitutes insurable interest.**—Because the possible range of insurable interest is wide its existence is often difficult to ascertain and its definition always difficult. Many definitions have been formulated, of which the following clause from the codified laws of one State is a fair example—"every interest in property or in relation thereto or liability in respect thereof, of such a nature that a contemplated peril may directly damnify the insured." Another definition, short but to the point, is to the effect that "as long as the insured has a direct pecuniary interest in the preservation of the property he possesses an insurable interest." Observe that neither ownership nor possession are necessary, but a right which may be prejudicially affected or a liability created, whether actual or contingent, is considered sufficient. However, the "utility test" is possibly easier to apply than any of the above. Thus, if the realization of a contemplated peril may adversely affect the use of an object, the party or parties thereby affected possess an insurable interest to the extent of the damage that might result with respect to such use. The uses to which property is put are almost as varied as the circumstances in which men find themselves, and insurable interests therefore often develop in most unexpected places. To cite a few common examples of diminished utility, there are the cases of

an owner whose property is destroyed in whole or in part; a bailee, who loses the privilege of keeping property for hire; or a commission man who is deprived of the usefulness of an article as an object of sale, by which sale he expects to earn a commission; or a mortgagee who loses part of his security for the debt through damage to mortgaged property.

**Classification of insurable interests.**—The more frequent instances of insurable interest may be conveniently divided into five classes:

1. The interest of an actual owner, sole and unconditional. This is the simplest and most frequent case.

2. The interest of a representative or agent of the owner, as for instance, a custodian, commission man, bailee or warehouseman.

3. The interest of a tenant arising from the consequential losses of a fire, as the loss of use of property on which rent is payable, the detriment to a lessee from the destruction of the leased property, the injuries covered by a use and occupancy clause, etc.

4. The interest arising from legal liability for the property of others, as in the case of common carriers, bailees for hire and lessees.

5. The interest of a party holding property as security for a debt, such as the interest of a mortgagee. The importance of this latter type of interest warrants a separate discussion of it.

**Protecting the mortgagee.**[1]—It might be inferred from the preceding discussion that only one person can have an insurable interest in a given property at a given time. This, however, is not the case, since quite often there is a creditor or lessee who needs protection as well as the owner. One of the most frequent instances of more than one concurrent insurable interest arises from the relation created by a mortgage. The courts have long recognized the existence of more than one insurable interest in mortgaged property, the mortgagor having an insurable interest equivalent to the value of the property, while the mortgagee can carry insurance equal to the amount of the debt.

[1] This section is virtually a reproduction of the material contained in an article by Robert Riegel, "Protection of a Mortgagee's Interest by Insurance", which appeared in the *Journal of Political Economy*, December, 1915, and is used here through the courtesy of the publishers of the above periodical.

There have been several methods whereby these two interests have been protected and because of their importance considerable space will be devoted to a description of them. While under any method the mortgagee has some protection, its extent is not equal under all circumstances or under all jurisdictions. His status is subject to interpretation by the intermediate courts and the courts of last resort of the forty-eight States besides the Federal courts, although the tendency of all of them is to favor him as much as possible. The following are five principal methods that have been used to insure the mortgagee:

1. *Mortgagee's policy covering his own interest.*—Here the mortgagee takes out separate insurance for his own benefit, in which the mortgagor has no rights whatsoever. However, since he possesses an insurable interest, the latter may obtain a policy on the same property for his own protection if he chooses to do so.

In case of loss under this method and payment to the mortgagee, the insuring company becomes possessed of the contractual right to collect at the maturity of the mortgage a sum equal to the indemnity paid. To permit otherwise would be to grant the mortgagee double indemnity. He would collect the amount of the loss from the insurance company and his claim on the mortgagor would be undiminished. Therefore the insurance company becomes subrogated to the rights of the mortgagee to the extent of the indemnity paid. An illustration will make this clearer. Let us assume that O possesses a property valued at $10,000 which he has mortgaged to M for a loan of $9,000. M insures his interest in Company J for $9,000 and a loss of $8,000 subsequently occurs. The insurance company, J, pays M $8,000 and by subrogation acquires M's right to collect $8,000 from O at the expiration of the term of the mortgage, M retaining the right to collect at that time the remaining $1,000 due him. The insurance company, if it can ultimately collect the $8,000 from O, loses nothing. If O refuses to pay foreclosure may be had and if the property brings only, say, $8,500, the company loses $500, since it cannot legally in the collection of its claim against O prejudice in any way M's contractual right to $1,000. An alternative settlement is the payment to M by J of $9,000 and the latter's acquisition by subrogation of a

claim for $9,000. This is the law in every State except Massachusetts.

The advantages of this method are few and accrue only to the mortgagee. It gives him double indemnity in one State, Massachusetts, and if he disapproves of the insurer selected by the mortgagor he may secure more satisfactory protection. The disadvantages to the mortgagee are that he must supervise the insurance and also pay the premiums. Such separate insurance is also disadvantageous to the insurance company, since it increases the difficulty of supervision, the moral hazard, and the danger of non-concurrent policies.

2. *Assignment of the mortgagor's policy.*[2] — A second method is the assignment to the mortgagee of a policy held by the mortgagor. The efficacy of this method is doubtful, since the mortgagee acquires by assignment only such rights as the mortgagor possesses at the time of assignment. A fuller explanation of assignment is given at the end of this chapter. These rights depend to some extent upon the nature of the assignment and the jurisdiction. Violations or misrepresentations may have voided the policy and in many States the mortgagee would then obtain a valueless piece of paper. Secondly, the mortgagee often has no legal status as a contracting party and consequently may not be entitled to notice of appraisal, to participate in negotiations after a loss, to redress if the mortgagor agrees to an inadequate settlement of the claim, etc.

3. *Indorsement of a "loss payable clause."*—A more extensively used method of obtaining insurance of a mortgagee's interest is the indorsement upon the mortgagor's policy of the so-called "loss payable clause," stipulating "loss, if any, payable to ————————, as his interest may appear."[3] From the standpoint of the companies this is desirable in some States because of the liability of the mortgagee for the acts of the mortgagor, and in general because of the elimination of separate insurance of interests in the same property and the reduction of the moral hazard. But the desirability of such a method from the mortgagee's standpoint, it is to be strongly emphasized, entirely depends upon the State where it is used; there being two radically different interpretations of his rights.

The first of these is that such an indorsement renders the

[2] See form on p. 195.

[3] See Appendix XXXVII.

mortgagee an appointee and representative of the mortgagor to receive the insurance money. Where this is the law no method could afford him less protection than the "loss payable clause," since it subjects him to all the defenses available against the mortgagor, without the rights of the latter. Not being legally a party to the contract, an award is binding on him, the election to build or repair may be exercised without notice to him, and he suffers all the disadvantages of the previous method.

In marked contrast are the States which consider the indorsement of a "loss payable clause" the creation of an unconditional, independent contract between the insurance company and the mortgagee. When thus favored, this method cannot be surpassed, since the mortgagee is not bound by the conditions of the policy, the acts of the mortgagor cannot be set up as a defense against him, and yet he possesses all the rights of the mortgagor.

4. *The "standard mortgagee clause."*—Of all the methods of protecting the mortgagee's interest the most prevalent, because of its general effectiveness, is the indorsement on the mortgagor's policy of a "standard mortgagee clause." One form of such clause is here given:[4]

MORTGAGEE CLAUSE

Loss or damage, if any, under this policy, shall be payable to..... as.....mortgagee (or trustee), as interest may appear, and this insurance as to the interest of the mortgagee (or trustee) only therein, shall not be invalidated by any act or neglect of the mortgagor or owner of the within described property, nor by any foreclosure or other proceedings or notice of sale relating to the property, nor by any change in the title or ownership of the property, nor by the occupation of the premises for purposes more hazardous than are permitted by this policy. PROVIDED, that in case the mortgagor or owner shall neglect to pay any premium due under this policy, the mortgagee (or trustee) shall, on demand, pay the same.

PROVIDED, also, that the mortgagee (or trustee) shall notify this company of any change of ownership or occupancy or increase of hazard which shall come to the knowledge of said mortgagee (or trustee) and, unless permitted by this policy, it shall be noted thereon and the mortgagee (or trustee) shall on demand pay the premium for such increased hazard for the term of the use thereof; otherwise this policy shall be null and void.

This company reserves the right to cancel this policy at any time as provided by its terms, but in such case this policy shall continue in force for the benefit only of the mortgagee (or trustee) for ten days after notice to the mortgagee (or trustee) of such cancellation and shall then cease, and this company shall have the right, on like notice, to cancel this agreement.

Whenever this company shall pay the mortgagee (or trustee) any sum for

[4] See also Appendices XXXII and XXXIII.

loss or damage under this policy and shall claim that, as to the mortgagor or owner, no liability therefor existed, this company shall, to the extent of such payment, be thereupon legally subrogated to all the rights of the party to whom such payment shall be made, under all securities held as collateral to the mortgage debt, or may at its option pay to the mortgagee (or trustee) the whole principal due or to grow due on the mortgage with interest, and shall thereupon receive a full assignment and transfer of the mortgage and of all such other securities; but no subrogation shall impair the right of the mortgagee (or trustee) to recover the full amount of.....claim.

Dated.....

Attached to and forming part of Policy No.....

of the....., of..... Agency at.....

.....Agent.

Such favorable treatment as is outlined in the clause is accorded mortgagees by insurance companies because of the former's inability to control the acts of their debtors, their recognized right to protection, and their usual excellence as moral risks. By such a clause, it will furthermore be noticed, the right to subrogation is reiterated and acknowledged in the contract. An indorsement of this nature creates what is substantially an independent contract between the insurer and the mortgagee. The word "independent" is thus qualified because two lines of decisions are existent on the liability of the mortgagee for his debtor's acts. In four States he has been declared entirely unaffected by such acts, whether committed prior or subsequent to the indorsement on the policy of the "mortgagee clause." In four other States he has been held exempt from the consequences of acts occurring after its indorsement. In one of these States, the provisions of the standard policy after line 59 (which refer to conditions after a loss) were held to be inapplicable and not binding on the mortgagee. He is privileged to submit proofs of loss, to receive notice of appraisal and to be exempt from the "rebuild or repair" provision.

Illustrations will serve to define distinctly the nature of the settlement of claims under the "mortgagee clause." Let us suppose that the value of O's property is $10,000, that the same is mortgaged to M for $4,000, and that O obtains a fire insurance policy for $4,000 from Company J on which a "standard mortgagee clause" is indorsed for M's protection. A loss of $3,000 occurs. Company J will pay to M, the mortgagee, $3,000. O, the owner, having an interest in the policy,

however, is entitled to protection, and therefore is credited by M with $3,000 in liquidation of the debt, being thus reimbursed for the $3,000 damage to his property. An equivalent settlement would have been for J to pay M $4,000, then to take over M's claim against O of $4,000, and credit O with $3,000 toward payment of the same.

A situation may exist, however, where O has violated the terms of the insurance contract and J disclaims all liability to him. In this contingency, when M receives $3,000 from the insurance company, instead of O receiving $3,000 toward the payment of the debt, the insurance company is subrogated to $3,000 of M's claim against O at the expiration of the mortgage. Thus O loses $3,000 because his policy was void, and the settlement is made as though O has never had an interest in the insurance.

For the ordinary mortgagee the indorsement of the "mortgagee clause" affords the best protection in most States. Its advantages may be summarized as follows:—

a. The prejudicial effect of the mortgagor's acts on the mortgagee's rights is considerably diminished in some States and entirely eliminated in others.

b. The mortgagee acquires legal rights as a party to the insurance contract.

c. The mortgagee is exempt in some States from certain provisions of the standard policy, such as the "repair and rebuild clause" and the provisions applying after a loss.

It has disadvantages, in comparison with other methods, in only a few jurisdictions. It is inferior to the "loss payable clause" in a limited number of States and is not as profitable as the separate insurance of the mortgagee's interest in Massachusetts.

5. *Special contracts.*—An even more satisfactory method of completely protecting the mortgagee is the formation of a special contract between insurer and mortgagee, embracing exceptional features for the latter's benefit. This, however, is chiefly used by trust companies and large lenders who place a great deal of insurance of this nature.

Assignment of fire policies.—When property is transferred or pledged as collateral it is often necessarily accompanied by protection. Usually the property is insured, and for transfer it is not always necessary to secure a new policy, but merely the proper assignment of the old one. This avoids a can-

cellation of the policy by the insured, which would mean a higher premium due to the short rate charged when a policyholder cancels his policy. Then, too, in the case of pledge, the real owner contemplates the redemption of his goods and if it were not for the possibility of assignment the unnecessary issuance of a third policy would be involved. For there would be the policy which he held as owner, a second policy issued to the pledgee, and later, when the property was redeemed, a third policy protecting the original owner would be needed to replace the two cancelled.

The policy provision relating to assignment.—Recognizing the necessity of assignment and the need for uniformity of action when a policy is assigned, it is customary for standard policies to contain clauses governing assignment, and there is usually a restriction stipulating that unless otherwise provided in writing and added to the policy it shall be void if assigned before a loss.[5] The object of this restriction is to prevent an assignment to an undesirable person. The insurance policy is a personal contract and assignment without any supervision or restrictions means insuring greater moral hazard and the frequent payment of claims to persons whom the companies possibly would not originally have insured. Thus, it is not only fair to the insurance company but also to the premium payers that the company should decide with whom they wish to contract.

Methods of assigning.—So frequently is insurance assigned that most policies have two forms printed on the back for the purpose, one for the assignment by the insured and the other for the consent of the insurer. Unless specified in the policy no particular form is necessary either for the assignment or the consent, but if it is prescribed, then any assignment not in entire compliance is incomplete.

ASSIGNMENT OF INTEREST BY INSURED

The interest of.....as owner of the property covered by this Policy is hereby assigned to.....subject to the consent of THE ..... INSURANCE COMPANY, NEW YORK.

.....
(Signature of the Insured)

Dated.....19.... .....

[5] See Appendix XXX, line 31.

CONSENT BY COMPANY TO ASSIGNMENT OF INTEREST

THE ..... INSURANCE COMPANY, NEW YORK, hereby consents that the interest of.....as owner of the property covered by this Policy be assigned to.....

.....Agent.

Dated.....19....

The assignment need not be in writing, as a verbal assignment might possibly be held sufficient in certain cases. In securing consent, however, express agreement is usually necessary, obtained through a properly authorized official or agent of the company. Soliciting agents and brokers seldom possess the requisite power for this. Even when the policy prescribes the method of assignment it is not necessary to follow it when the insurance has been taken out for the benefit of "assigns" or "for account of whom it may concern" or the interest indicated by phrases of similar effect. In these cases, consent is implied and the assignee acquires rights against the insurer.

Another method of transferring protection where there is no change of title is to have the insurer issue insurance certificates representing the policy. Here the holder of the policy gives certificates properly countersigned by the company and made payable to the party designated.

Effect of assignment before a loss.—The effect of assignment depends upon the circumstances of the case, the two most important distinctions being when there is a transfer of title and when there is not.

In case of a transfer of title, even where there is a covenant to insure for the benefit of the transferee, the insurance does not necessarily pass, as a policy ordinarily expires with the transfer of title as far as the transferor is concerned. But where the assignment is made and the consent of the company is given it has been held by the courts that this is the equivalent of a new policy. Therefore, if the title changes, any prior violation of the policy by the original holder is waived, and the only parties to the contract are the insurer and the assignee.

As opposed to this there is the assignment where no transfer of title has taken place, i.e., where the assignee is substituted for the assignor. If the assignor has forfeited before

the assignment he can assign nothing. The assignee takes the policy subject to all prior set-offs, even though all the policy provisions concerning assignment have been followed to the letter. Thus, a mortgagor as an assignor can present only that which he possesses, and in most States prior forfeiture due to some violation of the contract makes the policy void, except where a standard mortgage clause has been endorsed thereon. This clause, as we have seen, waives all the prior acts of the mortgagor.

Assuming, then, that the assignment is valid in all its details and no forfeiture has occurred prior or subsequent to the assignment, the assignee assumes the position of the assignor in his relation to the insurance company. He is vested with all the rights of the policy-holder and can enforce these rights against the company in his own name. Likewise, the company has rights against him—in other words, a contractual relationship has been established between them.

**Effect of assignment after a loss.**—There is nothing illegal in assigning the proceeds of a loss, as that is the mere assignment of a debt that is due and is no different from the assignment of an "account receivable" by a mercantile house. The courts have even decided that it is against public policy to permit a company to stipulate in their contract that they will not make payment to a person so appointed, since it amounts to a sale or transfer of a chose in action, which is always permitted in equity. However, it should not be construed from this that if the property has been transferred before a loss, the insurance can always be transferred after a loss so as to give the purchaser rights thereunder.

Strictly construed, the policy provision previously referred to would appear to state that any assignment before a loss without consent relieves the company of all liability. But this depends upon the interpretation of the word "assignment," and the courts have often considered that certain cases of transfer are not "assignments" as contemplated by the above clause. Only cases where the assignor parts with all his rights and creates a privity between the assignee and the insurer are so considered. As instances where the latter is not true, we have:

1. Assignment for the benefit of a creditor.
2. Assignment of the amount secured by the policy.
3. Endorsement making loss payable to a third party.

4. Deposit of policy as a pledge.
5. Deposit of policy as collateral for a chattel mortgage.
6. Assignment with a bill of lading as collateral security.

This is not to say that the assignee acquires the rights against the insurer possessed by the insured, or the rights which would have been obtained by an assignment with the consent of the insurer. These are merely cases where the policy remains in effect and where the assignee has a claim upon the proceeds of such policy when paid to the assignor.

## Chapter XIV

# THE FIRE INSURANCE CONTRACT

In this chapter we will discuss the basis of fire insurance, that is, the contract between the two parties; and since all the relations of the parties are summed up in this contract such a discussion might be extended until it covered every phase of the fire insurance business. Many of such phases, however, we have considered in other chapters and need not refer to here. This chapter is concerned mainly with the conditions of the fire insurance policy, the meaning of the various provisions found therein and the reasons for the existence of such provisions. The printed policy is often modified by the addition of endorsements and clauses but this subject must be postponed to the following chapter.

**Development of the standard policy.**—In the early days of fire insurance every company issued a policy which suited its particular needs. While at first policies were written largely at the home offices of the companies, the spread of the insurance idea caused more and more power to be placed in the hands of the agents and, dealing with an insured miles away, the company ran the risk not only of the incompetence of agents, but dishonesty of the insured. The original simple policy accordingly became hedged about by a multitude of restrictions, policies lacked uniformity, and some companies attempted to devise policies which would impose as little liability upon themselves as possible. As stated in a court decision of the period, the provisions were of such bulk and character that they were not to be understood by men in general, even after laborious study. They were intermixed with subjects in which the premium payer had no interest, and some of the most material parts were concealed in a mass of rubbish on the back of the policy and the following page, where few would think of looking. As if it were feared that some one would, in spite of these difficulties, discover the meaning of the contract, it was printed in extremely small type and long crowded lines so that "the perusal of it was made physically difficult, painful and injurious." After a time even the

companies which issued the policies did not know their meaning because of the conflicting court decisions which were rendered, and loss settlements where several policies were written on the same property were almost impossible. There was therefore considerable agitation to establish a fixed form of policy.

The first standard policy form was adopted in Massachusetts in 1873 and in New York a standard form of policy was made the only legal form in 1887. Eventually other States followed the example of New York until there were about seventeen standard forms in use in various States. Of these, however, the New York standard policy was the most important, having been adopted as it stood by several States, and only slightly modified by others. The National Convention of Insurance Commissioners recommended a new standard form in 1914 which was adopted by three States, including Pennsylvania, and an amended Insurance Commissioners' form was adopted by New York[1] and Wisconsin in 1918. Many provisions of the old New York policy had been nullified by court decisions and some were considered to be unfair to the insured. The advantages of a standard form are: (1) Every company issues the same form of contract, which is merely modified by endorsements to meet the circumstances of the case; (2) The insured becomes educated to the meaning of the contract; (3) Law suits are greatly reduced in number; (4) Court decisions gradually fix the meaning of the terminology employed; (5) Discrepancies between different policies on the same risk are reduced and loss settlements made easier.

**Provisions of the New York standard policy.**—We will use, for illustration, the present New York standard policy, with which the policies of many other States are practically identical. Instead of reading the policy from the first line to the last, more satisfactory results will be attained by grouping the policy provisions in their logical classifications and considering them under the following heads: (1) the parties to the contract; (2) the premium and consideration; (3) the extent of protection granted; (4) the provisions governing the inception and termination of the contract; (5) the suspension of the policy; (6) the voidance of the policy, and (7) the provisions relating to the settlement of losses. This will

[1] For New York Standard Policy see Appendix XXX.

enable us to consider together those provisions which are related.

**Parties to the contract.**—The position of the insured has already been described in the chapter on "Insurable Interest," and the various types of insurers in the chapter on the "Types of Insurance Organizations." The policy reads, "Does insure John Doe and legal representatives," and the name of the insured is an essential part of the contract.[2] He should not be named in an indefinite manner and it is not the general practice to issue policies "for account of whom it may concern," although it may be done where a custodian undertakes to procure insurance for his customers, as in the case of a warehouse or grain elevator. In time of war it is essential to see that the insurance is not written for the benefit of an enemy, and interest hidden under the expressions, "in trust," "on consignment," etc., are properly avoided by the companies. Because of its legitimate usefulness, however, a "commission clause" of this type is frequently used. The expression—"and legal representatives"—is intended to cover a trustee or administrator appointed to manage the affairs of an insane or otherwise incompetent person. The old New York standard form did this in a roundabout way by stating that "wherever in this policy the word insured occurs, it shall be held to include the legal representatives of the insured." With reference to a mortgagee, the policy provides that "other provisions relating to the interests and obligations of such mortgagee may be added hereto by agreement in writing,"[3] and we have seen that such cases are most frequently covered by the addition of a mortgagee clause.

**The rate, premium and consideration.**—All contracts without seal require a consideration to make them enforceable, and the consideration for the fire insurance contract is of a twofold character, consisting (in the language of the policy) of "the stipulations herein named and of $ premium."[4] The promises of the insurance company are conditional upon the fulfillment of the agreements of the insured, and where the policy form is prescribed by the law of the State the insured may reasonably be expected to be acquainted with the stipulations of the policy. Whether the acts or knowledge of

[2] See Appendix XXX.

[3] Appendix XXX, lines 124 and 125.

[4] Appendix XXX.

an insurance company constitutes a waiver of such requirements is another question to be discussed elsewhere.

The policy specifies the amount of insurance, the premium and the rate, the latter being the premium per $100 of insurance. The amount of insurance merely measures the company's maximum liability and not necessarily its actual liability on any particular loss. The requirements made of the insured are (1) that he will truthfully furnish certain facts, and (2) that he will avoid certain acts.

**Extent of protection.—**

1. *Events covered by the policy.*—The policy insures "against all direct loss or damage by fire and by removal from premises endangered by fire except as herein provided."[5] The amount for which the company is liable can never exceed the face value of the policy and may be considerably less, but we are here concerned not with the *amount* of liability, but with the *events* which make the policy payable. It is essential to consider what is meant by a loss "by fire." It is not necessary that the fire actually reach the property which is destroyed or damaged, but only that fire shall have been the proximate cause of the loss. Whether a given event is the proximate cause of a fire is primarily a question of fact, but it may be generally so considered when there is an unbroken connection between the said event and the loss without the intervention of some new and independent cause. Thus, in one case an insurance company insured a plant and its equipment, including electrical machinery. A fire of negligible size and duration occurred in a waste basket, which was sufficient, however, to come in contact with wires connected with the machinery, producing a short circuit which severely strained and wrecked most of the machinery in the building. The court held that the fire was the cause of the loss and, since the companies had not limited their liability in this respect, they were compelled to pay. Accordingly, all the natural results of a fire are considered losses by fire, such as the damage caused by smoke, by water, by the necessary removal of property, and by falling walls where fire was the cause. On the other hand, we must have a hostile and not a friendly fire, understanding by the latter one which never leaves the place intended for it. For instance, a company will not be held liable for damage caused by smoke thrown off by an oil heater

[5] See Appendix XXX.

or lamp, nor for damage to a stove which is cracked by heat, nor for damage to a wall which is blistered because a stove is placed too near it. On the other hand, if the stove falls over and the fire consequently leaves the proper receptacle, a loss by fire within the meaning of the expression results.

The policy also covers loss or damage caused "by removal from premises endangered by fire," and this expression must be considered in connection with the provision that such property is covered "pro rata for five days at each proper place to which any of the property shall necessarily be removed for preservation from fire."[6] This is an additional incentive to the insured to protect the company from unnecessary loss by saving and preserving goods which would otherwise become damaged. If a policy for $14,000 of insurance covered a $20,000 stock of goods on which a $5,000 loss occurred, and $5,000 worth of the remaining goods were removed to location "A," and $10,000 worth to location "B," 5/15 of the remaining insurance ($9,000) or $3,000, would follow the goods to location "A," and 10/15 or $6,000 to location "B." This insurance covers the property for five days, which is considered a sufficient length of time for the owners to obtain a new policy covering the new location.

It will be noted that the losses described above are covered "except as herein provided," and we shall see that certain articles are not covered, that certain events make the policy of no effect, and that the company's liability is as a result somewhat modified.

We find that with reference to insurance property may be divided into three groups: (1) such property as is usually understood to be covered without particular reference to the same, (2) property which is not covered by the ordinary fire policy, and (3) property for which liability must be specifically assumed by endorsement. Thus, it is stated that "this policy shall not cover accounts, bills, currency, deeds, evidences of debt, money, notes or securities."[7] The insurance of money is considered undesirable from the standpoint of public policy, inasmuch as it would be very difficult to prove the amount destroyed by the fire, or to trace the removal of money or securities prior to the fire. The value of a deed to property is problematical, for while the instrument is a matter of public record

[6] See Appendix XXX.

[7] Appendix XXX, lines 7, 8, 9.

it has some value in itself. Evidences of debt, such as promissory notes, are of uncertain value, depending upon the credit of the promisor. Turning to the property for which liability must be assumed by specific endorsement, the above quotation from the policy continues: "nor, unless specifically named hereon in writing, bullion, manuscripts, mechanical drawings, dies or patterns."[8] These are in the main articles which may be of much or little value, depending upon circumstances. The value of a mechanical drawing, for example, may be highly doubtful, there being no practical method of determining its market value, while a pattern is valuable only if the article produced from it is salable and has value. These exceptions enable the insurance company to make specific arrangements for the insurance of articles of this type. They are often insured under a "valued" policy in which the value is agreed upon at the time of issuing the policy. Valued policies are, in general, undesirable.

We find that the company also exempts itself from liability for loss caused by certain excepted hazards, including "invasion, insurrection, riot, civil war or commotion, or military or usurped power or by order of any civil authority or by theft; or by neglect of the insured to use all reasonable means to save and preserve the property at and after a fire or when the property is endangered by fire in neighboring premises."[9] These are very important exceptions.

For losses due to invasion, insurrection, riot, civil war or commotion or military or usurped power the company is not liable, because such losses occur under circumstances not contemplated at the time the policy is issued and where a loss can hardly be prevented or reduced. Furthermore, in many cases the insured party has the right of redress against the municipality or State. The exemption from loss caused "by order of any civil authority" has a very definite reason. It frequently happens that in large conflagrations property is purposely and legally destroyed to save considerably more property. In California such a loss is not considered as covered by the policy, but in most other States it is held to be a loss by fire and not "by order of any civil authority." Losses by theft are specifically excluded from coverage,[10] inasmuch

[8] Appendix XXX, lines 9-11.
[9] Appendix XXX, lines 14-19.
[10] Appendix XXX, line 16.

as the insured might be expected to take means to prevent such losses and because, under the laws of some States, a fire insurance company cannot cover this risk. Separate insurance, however, may now be obtained against insurrection, riot, and civil commotion,[11] also protection against damage to property caused by striking workmen. The remaining portion of this provision, stating that failure of the insured to use his efforts in behalf of the insurance company will result in a denial of liability under the policy, is a penalty intended to reinforce the provision requiring the insured to preserve all the property possible.

The policy further provides "this company shall not be liable for loss or damage occurring by explosion or lightning unless fire ensue and, in that event, for loss or damage by fire only."[12] Thus, the insurer is liable only for the loss caused by a fire following the explosion. As an illustration where no liability exists we might take the case of a steam boiler which, as the result of the application of heat in the ordinary way, explodes. For this the company has no liability unless the explosion is followed by fire. Where the fire precedes the explosion and the explosion is a direct result of the fire, the fire and explosion being in the same premises, the company is liable for the entire loss.

2. *Amounts covered by the policy.*—The contract makes the company liable "to an amount not exceeding $———." This must be construed only as the maximum amount for which the company can be held liable, its actual liability in particular cases often being much less, even where total destruction results from the fire. This is explained by the clause following: "does insure to the extent of the actual cash value (ascertained with proper deductions for depreciation) of the property at the time of loss or damage."[13]

Nothing could be clearer in theory than the expression "actual cash value," but few things are more difficult to determine in practice. The circumstances of every case make it seem a special problem to which no general rule is applicable. It is evident that the meaning of the contract is not affected by the amount of insurance on the property or the value of the property at the time the policy was issued, but depends upon

[11] Appendix LVII.
[12] Appendix XXX, lines 59-61.
[13] Appendix XXX.

the actual loss suffered by the insured. To allow the insured to recover the original value of real estate which has depreciated, of machinery which has been subject to wear and tear, of goods which have lost a large proportion of their value because of changing styles, of articles which have become almost worthless, would be an injustice to other policy-holders, to the company and to the public. It would simply furnish an incentive for the destruction of property, because more could be recovered as insurance than the property is worth while in existence. Even under present conditions it is found that business depressions, which reduce the values of buildings and stocks of goods, cause large increases in the fire losses. Such conditions furnish an incentive for a fire.

In spite of the theory explained above some States have seen fit to pass "valued policy laws." A valued policy is one where the value of the property insured is agreed upon when the contract is made and not when the loss occurs—such contracts being common in marine insurance, but used in fire insurance only for covering bullion, manuscripts, drawings, etc., whose value is difficult to determine at any time. The State laws referred to make every policy a valued policy, so that if a property is totally destroyed the insured is entitled to claim from the company the full amount of insurance regardless of the value of the property at the time of the loss. Thus, for the destruction of a building insured for $10,000 the insured would be entitled to claim $10,000 although the building might have depreciated to a value of only $6,000. Such laws have a tendency to increase fires.

The actual cash value of property is the material value of such property and not the subjective value which a particular person may place upon a piece of property because of affection or sentiment. Scarcity may, of course, give an object market value, as in the case of a postage stamp which is desired by collectors, but a high personal valuation is not sufficient. The actual cash value is furthermore dependent upon the stage of ownership which the property has reached in its transfer from manufacturer to consumer at the time of the loss. In a booklet issued by one company this is very appropriately illustrated by the case of an automobile. In a factory warehouse it is valued at the cost of production exclusive of profit, because the ordinary insurance contract does not cover profit. In the dealer's store the cost of production of the automobile has

been increased by the addition of the manufacturer's profit (which is cost to the dealer) and freight charges. When the automobile reaches the final purchaser the value has been further increased by the dealer's profit and then takes a sudden drop with the first day's use, and the question of actual cash value becomes again an open one. We have spoken above of the cost of production but this is not easy to determine, because each article must be charged not only with the cost of the raw material from which it was made but with a proportion of the trading expenses and administration expenses of the business. In fixing the cash value allowance must be made for the depreciation in value of property which is not new.[14] It is exceedingly difficult to estimate the amount of depreciation in real estate and other things offer even greater difficulties. Cash value really means the cost of replacing an object with new property at the time of the loss, less depreciation.

"But not exceeding the amount which it would cost to repair or replace the same with material of like kind and quality."[15] This is connected with the subject of depreciation. Let us suppose that an article was originally worth $10,000 and by reason of five years' use had depreciated $4,000 in value. Ordinarily we would consider the company's liability in case of destruction as $6,000, but if by reason of inventions and improved methods the article in question could now be produced for $5,000, this would, under the phrase quoted above, be the limit of liability. From this a deduction for depreciation would have to be made, inasmuch as the company is not required to furnish the insured with a new article in place of the one destroyed.

This implies that the company has the privilege of repairing or replacing the property instead of paying the loss, which is true, since the policy contains a provision permitting it "to take all or any part of the articles at the agreed or appraised value and also to repair, rebuild or replace the property lost or damaged with other of like kind and quality within a reasonable time on giving notice of its intention so to do within thirty days after receipt of the proof of loss herein required."[16] We have given an illustration above where it would be more profitable

[14] See Appendix XXX.
[15] See Appendix XXX.
[16] Appendix XXX, lines 176-182.

for the insurance company to replace the article than to pay the original cost less depreciation and this clause gives it the right to so do. Let us imagine, however, an article originally worth $1,000 which has appreciated in value so that it is worth at the time it is damaged $1,200, in spite of the wear and tear which it has endured. The fire damage, we will assume, is 20 per cent, or $240. If the company takes the damaged article and replaces it with a new one its net loss will be $240. If it calculates and pays the amount of the damage its net loss will be the same. If, however, by repairs costing $100 the article could be put in as good condition as before the fire, this would obviously be the economical course to pursue and the insured would not be injured in any way. This provision is valuable to the company mainly because the cost of materials and labor varies from time to time. The provision requiring this to be done within a reasonable time protects the insured against the loss of the use of his property in case such repairs cannot be promptly executed. These options afford the company a fair method of resisting excessive claims made by the insured, although such options are not ordinarily used since (1) the courts generally hold the companies strictly accountable for supplying materials of like kind and quality and (2) the exercise of the options compels the company to go into the business of buying materials, repairing articles and restoring buildings. The trouble and difficulties involved in this work have led to the formation of salvage companies who can be employed to manage such matters. In order to exercise the privileges referred to above the company must give notice of its intention within thirty days after the receipt of the proof of loss, and having once given such notice it is bound by it. It should be noted that in fire insurance, unlike marine insurance, the insured does not possess the privilege of surrendering to the company what is left of the property and claiming the face value of the policy, since the policy states "there can be no abandonment to this company of any property."[17]

The contract provides that the loss shall be settled "without any allowance for any increased cost of repair or reconstruction by reason of any ordinance or law regulating construction or repair."[18] Many cities have enacted ordinances intended to prevent the further use of features of building construction

[17] Appendix XXX, lines 183-184.
[18] Appendix XXX.

which contribute to fire hazard. Shingle roofs might be taken as a good example. In the event of the destruction of the roof it may be necessary by reason of the law to replace it with a roof costing considerably more and this is a loss for which the company is not liable. In places where such laws are strictly enforced the companies assume the responsibility by endorsement, charging an additional premium therefor.

The insurance company, as we have previously seen, assumes liability for direct loss by fire but not for consequential losses. The policy states that the loss will be settled "without compensation for loss resulting from interruption of business or manufacture."[19] The insured can recover the cash value of the property destroyed, but if it is some time before the property is again in his possession in its former condition and he thereby loses money through inability to operate, through the loss of contracts or the deprivation of profits which he might otherwise have made, the insurer is not liable for these latter losses. Such losses may be protected against by obtaining use and occupancy insurance, business interruption indemnity, rent insurance or profits insurance,[20] but are not covered by the usual fire insurance policy. Such insurance may be provided for by endorsements on the fire policy and will be referred to in the next chapter.

Finally, in connection with the amount for which the company is liable in the event of loss, we must consider the case where the same property is insured in several companies, as is frequently done with large risks. Suppose, for example, a property worth $400,000 which is insured in company "A" for $300,000 and in company "B" for $100,000. The policies of both companies provide that "This company shall not be liable for a greater proportion of any loss or damage than the amount hereby insured shall bear to the whole insurance covering the property, whether valid or not and whether collectible or not."[21] In our illustration, company "A" is liable for three-quarters of any loss and company "B" for one-quarter of any loss. According to the last phrase of the provision, if company "A" should become insolvent and able to pay only 50 cents on the dollar, company "B" cannot be relied upon to make up the balance and the insured will consequently receive

[19] Appendix XXX.
[20] See Appendix XL.
[21] Appendix XXX, lines 101-105.

only three-eighths of the loss from company "A" and one-quarter of the loss from company "B," losing the remaining three-eighths of the damage because he selected a weak company. Were it otherwise, the property owner would take a small amount of insurance in a strong company and the balance of the value he would insure with weaker companies at lower rates, depending nevertheless upon the strong company to pay any sums which the weaker companies might be unable to pay.

**Inception and termination of the contract.**—The policy states that the company "does insure for the term of..... ....from the.....day of.....19.. at noon, to the.....day of.....19.. at noon." The usual periods of time are one, three and five years. The word "noon" is defined by the policy as noon of standard time at the place of loss or damage,[22] although standing alone it was formerly given various interpretations by the courts. By agreement the date of termination of the contract might be left open; in one decision the court said that a standard policy with date of termination left blank would be considered as binding for at least a reasonable time.

From the standpoint of the insured the vital element is the determination of the moment when the contract with the company takes effect, that is to say, when the insurance begins. The acceptance of the risk by the company is the act which determines this and delivery of the policy, while excellent evidence of this fact, is not essential. A general agent frequently binds the company by the statement that the policy will be issued and many cases have arisen where the mailing of a policy was considered acceptance of the risk, because the post-office is considered the agent of the insured and acceptance indicated to it is acceptance indicated to him. To avoid this question a representative of the company issues to the insured a "binder," which is written evidence of the acceptance of the risk. This specifies that the insurance is binding from a definite date, gives a brief description of the property, stating that the "binder" terminates upon delivery of the policy or upon a date named therein, and provides for the adjustment of any loss in accordance with the provisions stipulated in the standard policy.[23]

The former New York standard policy contained a provision

[22] Appendix XXX, lines 106-107.
[23] Appendix XLI.

that the contract might be continued by renewal, but without such provision the parties may, of course, by agreement continue their relations. Such a renewal may be effected by a renewal agreement, by the issuance of a new policy, or by a renewal receipt.[24] The renewal receipt is merely a statement in writing of the intention of the parties to renew the contract. Where changes of amount, location or hazard have taken place, a renewal receipt is inadvisable and a new policy should be issued. A renewal creates a new contract on the same terms as the old one, so that if the insured has violated the old policy so as to make it void, the renewal creates a new contract which is not affected by acts during the term of the old contract. Likewise, the insured need not expect that the unwritten privileges which he enjoyed under the old policy are to be continued under the renewal unless endorsed on the policy. In one case, however, the court held that the insured was entitled to presume that the new contract was similar to the old one, even though he failed to read the new policy. The description which the insured gives must apply to the property as it is at the time of renewal and he must also disclose to the company any changes in hazard which have taken place.

A policy may be terminated in three ways: (1) by expiration of the term without renewal, (2) by cancellation and (3) by the occurrence of some event named in the policy. The first requires no discussion. As regards cancellation, the policy provides that "This policy shall be cancelled at any time at the request of the insured, in which case the company shall, upon demand and surrender of this policy, refund the excess of paid premium above the customary short rates for the expired time.[25] The short rate, which is greater than the pro rata premium (see pp. 236, 424), is justified by the expense which the company incurred in writing the policy. Either the insured or the company may terminate the contract by cancellation. While no obligations are imposed on the insured, however, the company must do two things: (1) give five days' notice of its intention in writing, and (2) tender, or offer to tender, the unearned premium. The notice given by the company is intended to enable the insured to obtain new insurance on his property if desired. To a mortgagee, ten days' notice is necessary.

[24] Appendix XLIII.
[25] Appendix XXX, lines 89-100.

As previously worded, the requirement that "the unearned premium shall be returned on surrender of this policy" was construed by the courts to mean that the unearned premium must be tendered at the time of cancellation in order that an attempted cancellation might be effective. But it is frequently difficult for the company to reach the insured with a notice of cancellation, and a dishonest person may purposely avoid the service of the cancellation notice and the tender of the unearned premium. A notice that "the pro rata unearned premium, if the premium has actually been paid, is held subject to your order on surrender of said policy," would be ineffective under the old standard policy according to court decisions. It is provided by the new form, therefore, that the company may cancel without tender of the unearned premium, provided that said unearned premium be refunded upon demand to the insured and the insured notified that such will be done in order that he may be aware of his rights. In case of cancellation by the company the insured is entitled to a return of the pro rata portion of the premium for the unexpired time, so that if a one-year policy is cancelled at the end of six months he is entitled to a return of one-half of the premium. In case the insured desires to cancel the policy the company returns only the difference between the premium paid and the "short rate" customarily charged. A "short rate" is a rate charged for insurance of less than one year, and is justified for such insurance because of the higher relative expense involved. It costs nearly as much to write insurance for one month as for one year, and therefore when the insured cancels at the end of six months he cannot expect to receive one-half of the premium. For example, the premium for one month, according to the short rate table used by the company, might be 20 per cent of the annual rate. Under any other arrangement, persons would always take one-year policies and cancel them when necessary, thus causing additional clerical work. A sample "short rate" table is given in the appendices.[26]

The policy also provides that "if loss or damage is made payable in whole or in part to a mortgagee not named herein as the insured, this policy may be cancelled as to such interest by giving to such mortgagee a ten days' written notice of cancellation."[27] This applies to a policy taken by the owner and

[26] Appendix XLIV.
[27] Appendix XXX, lines 108-112.

made payable to a mortgagee who has lent money on the property.

While neither the insured nor the company is required to give reasons for cancellation, the principal reasons for cancellation by the company are increase of hazard, bad physical or moral hazard, unsatisfactory loss ratio, over-insurance and non-payment of premiums.

There are many provisions in the policy as to acts which render it temporarily or permanently void, all of which are discussed later in this chapter; but in contrast with the voiding of the policy, one provision states that the insurance shall "cease if a building or any material part thereof fall except as the result of fire."[28] All insurance on such building or its contents thereupon ceases because after the building has fallen the risk has materially changed. While this provision has been enforced by the courts, it has always been strictly construed against the companies, who were usually compelled to prove that a material part of the building had fallen. The introduction of the word "material" now makes this a part of the contract.

Suspension and voidance of the policy.—*Suspension.*— Since the insurance company accepts a risk and names a premium on the basis of the hazard existing at the time the risk is offered, many provisions are inserted which are designed to prevent the increase of such hazard without the knowledge of the company. In the original New York standard form the companies attempted to prevent this increase of hazard by providing that the policy was void when one of the above-mentioned provisions was violated. The question then arose as to whether the policy again became valid when the violation ceased. If the policy became void, for example, when gasoline was stored on certain premises, did the policy again become valid when the gasoline was removed? The companies answered this question in the negative but the courts were favorable to the insured, and in many States the policy was revived when the violation ceased. Accordingly, the new policy form merely suspends the policy while such violations continue.[29] The various acts considered to increase the hazard will now be considered.

The policy provides that "the Company shall not be

[28] Appendix XXX, lines 68-71.
[29] Appendix XXX, lines 32-35

liable for loss or damage occurring while the insured shall have any other contract of insurance whether valid or not on property covered in whole or in part by this policy."[30] Consent for other insurance may be obtained from the company, of course, and an endorsement made on the policy. Such consent is obtained without any extra charge except in cases where there is a specific object in restricting the amount of insurance. Thus, it is sometimes the object not to insure the full value of the property in order to compel the insured to exercise greater care. Likewise, the amount of insurance may be limited with the object of decreasing any moral hazard that may exist. It will be noted that this prohibition only refers to other contracts of insurance taken out by the insured and its object is not to prevent several different interests in the same property from being insured, but to prevent the same interest from securing several different policies without the knowledge of the companies. The courts have upheld this clause as it would otherwise be easy for a person to over-insure his property and thus create an incentive for its destruction. In regard to the policy provision of the former standard policy, three lines of court decisions exist. One held that where two policies existed without consent the later policy was void from its inception because of the prohibition and since the second policy never really existed, the first policy was valid. Another view was that the subsequent policy invalidated the first policy and might or might not itself be valid, while a third view gave the insured the benefit of one policy, but not of both; i.e., if the company recognized the subsequent policy, the first was invalid, and if the second Company repudiated the second policy, the first was valid.

It will be noticed that this prohibition refers to a property "covered in whole or in part by this policy,"[31] an expression which brings up the doctrine of "entirety of the contract." This is important not only in connection with this subject of suspension but with many others. It would seem that the intention of the company is that when the policy is violated as regards a part of the property, the entire policy on all the property is suspended. In other words the policy is regarded as a unit and indivisible. The court decisions of the past show a tendency, however, to be lenient toward the insured and the

[30] Appendix XXX, lines 35-37.
[31] Appendix XXX, line 37.

policy has sometimes been considered as divisible and sometimes as indivisible. One court held that when the company acknowledged its liability upon one building covered by a policy, it acknowledged liability upon all of them, although the provision against vacancy had been violated in regard to part of the property. But in another case, where the policy covered sixteen tenement houses, the court held the policy to be valid in the case of one building which was burned, although at the time eight of the houses were vacant contrary to the policy provision. The tendency has been to give some consideration to the character of the subject matter insured. The policy should undoubtedly be strictly construed where it covers a building and its contents, whereas a policy covering several buildings some distance apart might be considered divisible on the ground that in the former case both items of property are closely related while in the latter they are separate entities.

The Company shall not be liable for loss or damage occurring "while mechanics are employed in building, altering, or repairing the described premises beyond a period of fifteen days."[32] It is plain that the object of this clause is to permit the insured to make such alterations and repairs as are necessary for the up-keep of the property, but not to cover a building while it is being extensively remodeled. This latter is a risk which was not contemplated at the time when the policy was issued and therefore special permission in writing must be obtained.

Certain dangerous processes and articles are also prohibited. The company is not liable "while illuminating gas or vapor is generated on the described premises; or while (any usage or custom to the contrary notwithstanding) there is kept, used or allowed on the described premises fireworks, greek fire, phosphorus, explosives, benzine, gasoline, naphtha, or any other petroleum product of greater inflammability than kerosene oil, gunpowder exceeding twenty-five pounds, or kerosene oil exceeding five barrels."[33] The list in the former standard policy included in addition benzol, dynamite, ether, nitro-glycerine; and in regard to kerosene oil, it was required that it be drawn and that lamps be filled by daylight, or at a distance not less than ten feet from artificial light. Benzol, dynamite, naphtha

[32] Appendix XXX, lines 41-43.
[33] Appendix XXX, lines 44-51.

and nitro-glycerine, however, are also included within the meaning if not the words of the new clause, while ether and kerosene oil have become relatively little used in the ordinary dwelling or business house. The provision regarding the filling of lamps was never enforceable. It should be noted that nearly every court has held that where the use of any prohibited article is usual and necessary in the conduct of the business of the insured or is kept in similar establishments it does not void the policy, although there are some decisions to the contrary. In many cases the provision "any custom of trade or manufacture to the contrary notwithstanding," has been held to be in restraint of trade and contrary to public policy.

In regard to manufacturing establishments, the company is not liable "while operated in whole or in part between the hours of 10:00 P. M. and 5:00 A. M. or while it ceases to be operated beyond a period of ten days."[34] In the great majority of cases overtime operation increases the hazard, while the latter portion of the phrase is intended to cover two cases—(1) where a strike occurs, with consequent additional danger to the premises and (2) where business is poor and the property consequently becomes worthless in the owner's estimation, thus increasing the moral hazard.

The company is not liable "while a described building, whether intended for occupancy by owner or tenant, is vacant or unoccupied beyond a period of ten days."[35] Vacancy has been considered as meaning the absence of any person or thing, while unoccupancy refers to the absence of persons. A building which is unoccupied is not necessarily vacant but either of these conditions is sufficient to suspend the policy. This provision has in the main been held valid by the courts. Experience shows that the hazard is increased by vacancy or unoccupancy, inasmuch as under such circumstances there is no one on the premises by whom the presence of fire may be promptly detected. Vacant or unoccupied premises also increase the danger of accidental fires caused by irresponsible persons.

A company is not liable for property "while incumbered by a chattel mortgage, and during the time of such incumbrance this Company shall be liable only for loss or damage to any other property insured hereunder."[36] The chattel mortgage

[34] Appendix XXX, lines 52-55.
[35] Appendix XXX, lines 56-58.
[36] Appendix XXX, lines 65-67.

is regarded as objectionable because it frequently indicates the poor financial condition of the insured, and the property also usually depreciates in value before payment for it is completed. A custom of business requiring chattel mortgages may induce a company to waive its objections but liens on personal property are in general avoided. It will be noted that the contract is hereby specifically stated to be divisible and not "entire."

The company insures the property "while located and contained as described herein, or pro rata for five days at each proper place to which any of the property shall necessarily be removed for preservation from fire, but not elsewhere."[37] The policy is thus suspended, according to its terms, while the property is not in the location described. While the language employed could hardly be stronger or clearer, the courts have been lenient toward the insured. In various jurisdictions varying decisions have been rendered. Thus, a policy on a carriage destroyed while out for repairs was held valid on the ground that the company must have contemplated the moving of the carriage for this purpose when it wrote the policy, but in another case a policy on a fire engine was declared void because the engine was destroyed while at a fire. In general, it would seem equitable to take into account the nature of the subject of insurance, although this may give rise to difficult cases in practice.

Finally, there is a blanket clause intended to cover other acts of the insured not already enumerated, to the effect that the company shall not be liable "while the hazard is increased by any means within the control or knowledge of the insured."

*Voidance.*—As previously stated, the actions which render the policy permanently void have been considerably reduced in number by the New York form. Those which remain may be divided into two groups, (1) provisions dealing with misrepresentation and (2) provisions dealing with ownership.

The policy provides that "This entire policy shall be void if the insured has concealed or misrepresented any material fact or circumstance concerning this insurance or the subject thereof," and "in case of any fraud or false swearing by the insured touching any matter relating to this insurance or the subject thereof, whether before or after a loss."[38] Good faith

[37] Appendix XXX.

[38] Appendix XXX, lines 1-6.

is an important element of every insurance contract and the insurer and insured are both supposed to be in possession of the same facts if such facts are material. It is, however, very difficult to prove concealment or misrepresentation, as it is necessary to show that this occurred with intent to deceive and that it was material to the contract. It is usually held that if the company does not make the inquiry the insured is not bound to divulge any information. On the other hand, the insured must not suppress any information which the company seeks to obtain. If the statements of the insured could be considered as warranties it would be sufficient to void the contract if the company showed that they were untrue, but the laws of many States hold the statements of the insured to be merely representations which become significant only if untrue materially and made with intent to deceive. But the courts have not been so lenient in their treatment of fraudulent statements made following a loss, although mere mistakes are not sufficient to invalidate the policy. In the former standard policy plans and descriptions of the property were stated to be warranties, but the laws referred to made this provision nugatory.

The policy is void "if the interest of the insured be other than unconditional and sole ownership," unless otherwise provided.[39] As described in a previous chapter, however, the interest of a mortgagee may be and sometimes is insured by his own policy and the owner of the property may have a mortgage clause endorsed on his policy for the protection of the mortgagee. According to this provision an insurable interest is not sufficient to make the contract valid. A few illustrations will make this plain. A stockholder in a corporation is part owner of the assets of the corporation but he is not a sole and unconditional owner because the title and ownership is vested in an artificial body, the corporation. Again a person may be entitled to royalties from the use of certain property, but he is not the sole and unconditional owner. A partner has an insurable interest in the property of the firm, but does not comply with the requirements of sole ownership. It has been held by the courts, however, that mortgaging the property does not deprive the insured of sole and unconditional ownership, inasmuch as while he cannot dispose of the property, he

[39] Appendix XXX, lines 22 and 23.

can dispose of his interest therein. Where property is purchased on the installment plan and the seller retains the title until the installments are paid, the status of the buyer is doubtful. Such interests are provided for by forms referred to in the next chapter.

Unless otherwise provided the policy is void, "if the subject of insurance be a building on ground not owned by the insured in fee simple."[40] Fee simple is a title free from condition or limitation, the largest estate of ownership known to the law. For example, buildings standing on ground not owned by the insured may have their value suddenly diminished by some action taken with reference to the ground and the owner of the buildings have the value thereof practically taken away from him by an order to remove them.

Unless otherwise provided the policy is void, "if, with the knowledge of the insured, foreclosure proceedings be commenced or notice given of sale of any property insured hereunder by reason of any mortgage or trust deed."[41] Foreclosure proceedings frequently lead to quarrels between the parties involved and increase the moral hazard. Furthermore, the sale of a portion of the property may render the remaining property proportionately much less valuable. The doctrine of entirety of the contract very properly applies here.

The policy is also void "if any change, other than by the death of an insured, takes place in the interest, title or possession of the subject of insurance (except change of occupants without increase of hazard)."[42] Insurance does not cover a particular piece of property but some person's interest in that property. It is therefore a personal contract and the policy issued to one person will not cover another without special agreement to that effect. Otherwise a change of possession or title might greatly increase the risk (inasmuch as all persons are not equally reliable or careful) without the insurance company being able to protect itself. This clause, however, is not designed to prevent an administrator, executor or heirs from obtaining the benefit of the insurance bought by the deceased, or to cause unnecessary annoyance to an owner who rents his premises.

[40] Appendix XXX, lines 24 and 25.

[41] Appendix XXX, lines 25-28.

[42] Appendix XXX, lines 28-31.

The assignment of a policy before a loss may transfer the insurance to an undesirable person. In this connection, however, see the chapter dealing with "Assignment of the Policy" where some cases of assignment without consent are discussed.

The next provision to be discussed has to do with both agency and the settlement of losses but is inserted at this point because, in substance, it means that the privileges granted to the insured without endorsements on the policy in writing are void and that no act required for the purpose of settling a loss shall be held to void any provision of the policy. The subject of waiver may be divided into three sections, referring to (1) acts of the agent at the time of the issuance of the policy, (2) acts of the agent after the issuance of the policy and before a loss and (3) acts of the agent after a loss. The company and its agents must be exceedingly careful, in spite of the provision referred to, not to do anything which may be construed as a waiver. After the policy has been issued it is generally held that waiver must be in writing. If, prior to the issuance of the policy, the company or its agents are well aware of a condition which exists with respect to such property the company may be held to have waived the provision in the policy applicable to such condition. It was very difficult for the company to deal with the insured in the settlement of losses without waiving a violation under the old form of policy. It is the practice, therefore, for the company to attempt to have the insured sign a non-waiver agreement providing that the actions of the company or its representatives in settling a loss shall not be considered as a waiver of any of its rights. Otherwise it might be inferred that an insurance company waived a forfeiture of the policy, for example, by proceeding to attempt an estimate of the amount of the loss, or by a submission of a claim to arbitration. The present policy is better worded from the standpoint of the company. It reads, "No one shall have power to waive any provision or condition of this policy except such as by the terms of this policy may be the subject of agreement added hereto, nor shall any such provision or condition be held to be waived unless such waiver shall be in writing added hereto, nor shall any provision or condition of this policy or any forfeiture be held to be waived by any requirement, act or proceeding on the part of this Company relating to appraisal or to any examina-

tion herein provided for; nor shall any privilege or permission affecting the insurance hereunder exist or be claimed by the insured unless granted herein or by rider added hereto."[43] The original form provided that "No officer, agent or other representative of this Company shall have power to waive any provision or condition of this policy except such as by the terms, etc.," but the courts repelled the suggestion that one who was held out as a general agent could not bind the company by his acts.

Loss settlements.—The provisions of the policy relating to the settlement of losses are so extensive and the principles involved are so important, that a separate chapter is devoted to their consideration. (Chapter XVIII).

[43] Appendix XXX, lines 78-88.

## Chapter XV

# FIRE INSURANCE FORMS AND CLAUSES

Since the standard policy form is rigid in nature and not adapted to all sets of circumstances as it stands, it is therefore frequently necessary to modify it by the addition of endorsements or "riders." For example, some endorsement *must* be made on the policy to give a description of the property insured, while an endorsement *may* be made whereby the prohibition of vacancy is temporarily waived. It is in this connection that the fire insurance broker is in a position to render the greatest service to his client. He should be able, by reason of his experience in insurance and his knowledge of the insured's business, to suggest endorsements which are necessary to adapt the standard form to the circumstances of the particular case. It is necessary, furthermore, that these endorsements be worded so as to give to the insured the protection which he requires and believes that he is getting.

Endorsements on the standard fire policy may be divided into two groups (1) *forms,* which are descriptive in character and aim to supply something which is missing in the standard policy and (2) *clauses,* which are permissive or restrictive in character and intended to alter some portion of the standard policy. We will discuss the groups in this order. Forms may be subdivided into two classes (1) those which are intended to describe who and what is insured and where the property is located and (2) those which cover some liability other than fire, such as profit insurance.

Descriptive forms:

1. *Ownership.*—The standard policy provides that the person insured shall be the sole and unconditional owner of the property, in which case it is only necessary to insert his name. In the case of a firm whose partners change, or of a partnership which changes to a corporation, some question may arise as to whether the policy continues to cover the new arrangement. Thus the words "as now or hereafter consti-

tuted" are frequently added to partnership policies. But there are many cases where the interest is not sole or unconditional. It is doubtful, for example, whether the buyer on an installment plan to whom the title does not pass until the last payment is made is an unconditional owner. The insertion of the name of the insured therefore takes various forms and in these forms the interest of the insured should be very exactly described. To illustrate, the policy provision is violated if the property is owned by a wife and insured in the name of her husband, or if the property is owned by a firm and insured in the name of an individual. Property may be insured in the name of a person's estate. A form may also be added to the policy stating that it is understood that the building covered by the policy stands on leased grounds, the form being inserted in order to avoid the prohibition in the policy of such a condition. The policy also provides that a chattel mortgage shall not exist without the knowledge and permission of the company and this fact must therefore be disclosed in the description of the interest of the insured. Such chattel mortgages frequently arise from the purchase of machinery and their existence must be recognized in the policy; a form stating that the existence of such mortgages will not invalidate the policy is sufficient. The policy provision against foreclosure is sometimes waived and permission given for the execution of contracts of sale which are stated not to prejudice the insurance.

It is frequently necessary for a person to insure goods belonging to others and the so-called "commission form" is commonly used for this purpose. A description may be inserted covering goods "either owned or held by them in trust, or on commission, or sold but not delivered or removed, or for which the insured may be liable, and the property of others in storage or for repairs." For example, a commission merchant may sell textiles and the manufacturer may deliver to him goods which are not yet sold. The commission merchant may make advances to the manufacturer on such goods, holding the goods as collateral for the loan. They are held by him in trust or on commission. Under the commission clause, in the event of loss, the loss is payable to the commission merchant, who then returns to the real owner the amount due over and above his interest as agent or trustee.

2. *Description of the property.*[1]—It is essential that the form describing the property shall cover all that it is intended to include. It is also necessary to be careful that the descriptive form does not modify some liability which is expected to be assumed entirely. The form ordinarily does not cover "building and contents" because of the different premium rates upon these two classes of property. In the policy upon the building it is common to enumerate a number of permanent fixtures such as heating and lighting apparatus, and if machinery is insured as a separate item, it is desirable to see that the machinery covered under the building item is distinguished from that covered under the machinery policy. This may be done by a simple statement of such an intention. In the case of policies on stock the property may be described as "stock, samples, materials, boxes, cases, labels and supplies (manufactured, unmanufactured, and in process of manufacture if the risk is a manufacturing risk)." In all these cases it is advisable to avoid indefinite expressions. "Fixed machinery," "machinery pertaining to the business," "such goods as are usually carried for sale," "contents," etc., are expressions which are very general in character and their meaning is difficult to define accurately.

3. *Location of the property.*—It is also necessary to state clearly the location of the property inasmuch as the policy covers only while the property is in the location described. A common description is property "contained in and on buildings, additions, and extensions situated at a given location." This expression is sometimes extended to read also, "about the buildings, additions and extensions," which greatly extends the scope of the coverage. Policies covering household furniture frequently include the property of guests while in the house. If the property is of considerable value it may happen that the insurance taken will not reach the required percentage of the value, in which case the owner of the furniture becomes subject to the provisions of the coinsurance clause referred to later. In describing the location, there is the same objection to the use of loose and inaccurate expressions such as "premises," "adjoining," "communicating," the meaning of which may be called in question after the loss occurs.

4. *Forms covering more than one location.*—Some kinds of property are, by their very nature, designed to move about

[1] For a household form see Appendix XXXV.

and it is therefore necessary to have forms which will cover them wherever they may be. Such forms make a policy a "floating" policy. One form is that designed to cover the clothing and personal property of travellers and is therefore known as a "tourist" form. This protects the property of the insured and of the members of his family wherever they may go in the United States, Mexico, or Canada, or while being transported. If the property separates and is in more than one location at the same time, the policy will cover it proportionately in the several locations. The fire form affords protection against fire only but a marine form usually protects against perils of navigation and theft, but not pilferage. A form of this type does not cover the property at any place where the insured has a specific policy on the same property. Upon payment of a loss the insurance company is subrogated to the insured's rights against the transportation company, if any. This type of insurance is sometimes written on specific articles of personal property which are carried about by artists, actors, musicians, etc.

Other forms of this character are necessary to protect common carriers on property in their hands for transportation, and to protect owners against loss of their own property while in transportation. These insure the carrier against the loss which would result from his legal liability for the safety of the goods, or the owner against any loss which would result when the carrier was not legally liable. The insurance company's liability in these cases obviously depends upon whether the carrier or owner is legally liable for the loss resulting from fire.

Another form of "floater" is the "excess floater."[2] The object of this form is to indemnify the insured to the extent that any specific insurance covering the property at a definite location is insufficient. The excess insurance may cover at one location but frequently floats over and protects property in several locations. In the case of excess insurance the company is not liable for any loss until that loss exceeds the amount of specific insurance on the property. Suppose that an owner has goods in three locations; $10,000 at "A," $4,000 at "B" and $2,000 at "C." He obtains specific policies covering the full value of the property at each of the locations named. This property, however, is of such a nature that it

[2] See Appendix XXXIV.

moves about from place to place or the respective values at the different locations are constantly changing.

Let us presume that the property at "A" declines to $5,000, and that the property at "B" and "C" is increased to $7,000 and $4,000 respectively and that a fire at "B" destroys $5,000 worth of property. The insured under these circumstances has only $4,000 of insurance at "B" and consequently loses $1,000 by the fire, although his endeavor was to be fully protected. Suppose however, with the facts as originally stated, that the owner takes out three specific policies of $5,000 each, covering at "A", "B", and "C" respectively, and in addition takes an excess floating policy of $5,000. If then the change in the situation which we have described above takes place and the assumed loss at "B" is $6,000, he could recover the full amount; the specific insurance amounting to $5,000 and the floating insurance to $5,000. The specific insurance would contribute $5,000 of the loss and the floating policy $1,000 of the loss, since the latter is liable only for the excess over and above the specific policy. Such a form, however, is usually subject to a reduced rate average clause which is described hereafter.

**Forms covering other than direct loss.**—The standard fire policy provides protection against all direct loss or damage by fire, but in many cases the fire inflicts as much damage on the insured by reason of the results following the fire, as by the actual destruction of his property. Certain forms enable the fire insurance company to give the insured protection against these consequential, as distinguished from direct, losses.

1. *Use and occupancy insurance.*[3] This term is applied to different varieties of insurance, but in general may be said to be insurance which is designed to protect against (1) loss of profits as the result of inability to operate a manufacturing or sales business because its property is destroyed by fire and (2) certain payments which must be made even though the business cannot operate, such as fixed charges, expenses, and wages. In the case of certain non-profit corporations the first item is absent while the latter is present. Where the word "business" is used in the form it is considered to mean either (a) in a manufacturing property, the production of goods; (b) in a mercantile property, the sale of goods; or (c) in other classes of property, the business operations usual to that class.

[3] See Appendix XL.

Insurance applies only if the said building, machinery, equipment or stock is damaged by fire so as to cause a total or partial suspension of business. Damage to property other than that described, even though it may result in loss of profits, does not entitle the insured to indemnity. The company is liable only up to the amount of the actual loss sustained for a duration of time not exceeding that reasonably required to rebuild, repair, or replace the property, and only to the extent of such fixed charges and expenses as must necessarily continue during the suspension. The latter must be determined from the circumstances of the case; one business may be able to let all of its employees go without injury, while another must retain every employee.

There are some limitations upon the above coverage. It is usually provided that "during the time of a total suspension of business, liability under this policy shall not exceed $\$\ldots\ldots$ for each business day of such suspension." The usual case is that the amount entered here is less than the amount of loss which is actually suffered, or in other words, full protection is not taken. During a partial suspension of business, i.e., when production is only a portion of what can be produced under normal circumstances, the liability of the company is ascertained by the following ratio:

$$\frac{\text{Full Production—Present Production}}{\text{Full Production}} = \frac{\text{Loss per day or Company's Liability}}{\text{Daily liability for total suspension}}$$

or

$$\frac{\text{Decrease in Production}}{\text{Full Production}} \text{ of } \text{Per diem liability for total suspension} = \text{Loss per day}$$

In the above equations the present production is easily ascertained, and the "full," or "normal" production is defined as the average daily production (or business) of all plants or properties herein described for the .... days of full operation next preceding the fire. The maximum daily liability for total suspension is named in the policy but the actual daily liability cannot exceed the actual daily loss. The tendency of the business, that is, the increase or decrease in daily production may be taken into account in ascertaining the loss, so that a declining business cannot recover more than it would have made if it had

continued in operation. These adjustments are very important in seasonal businesses such as the clothing industry.

2. *Rent insurance.*—This may be defined in general as insurance designed to protect a landlord against the loss of income that would result from a fire. The company agrees that if the building or a part of the building shall become untenantable by reason of fire the owner shall be entitled to indemnity for the actual loss of rents resulting, but not exceeding the amount insured. The loss is to be computed from the rentals being received at the time of the fire. The company's liability continues for the time necessary to put the premises in a tenantable condition. The insured agrees to carry insurance equal to 100 per cent of the rents or to have his indemnity reduced proportionately and under this form of insurance the indemnity is perfectly definite. A form covering leasehold interests insures not only the rent which the lessee or middleman pays to the owner but also the profit which such middleman or lessee makes by subletting the premises. Or such insurance may cover his interest in a building which he erects on leased ground. It is impossible to discuss here the various forms which may be used to cover possible situations created by the terms of leases, such different situations being obviously very numerous.

3. *Profit insurance.*—Fire insurance agrees to indemnify the insured for the loss of his stock and profit insurance furnishes the additional protection of guaranteeing him his profits upon such goods as are destroyed. This is obviously a dangerous form of insurance because of the moral hazard involved. The insured, after a fire, can collect all that he would have received if the goods had not been destroyed, and does not have the trouble of waiting for the profits to be realized or run the danger of losing them.

4. *Sprinkler leakage insurance.*—The installation of automatic sprinklers reduces the danger of loss by fire. Such sprinklers come into action by reason of an increase in temperature, whether caused by fire or otherwise, and sometimes flood the premises with water when there is no fire. Against the loss which results from such an event this form of insurance furnishes protection.[4]

Clauses.—While forms were designed to supplement the standard policy, clauses are designed to modify its provisions. We will classify the clauses according to the purposes which

[4] See Appendix XXXIX.

they are designed to serve. It would take an entire volume to give merely the wording of all the various clauses in use and we have here noted only the more common.

1. *Permits.*—We have seen that the standard fire policy contains a number of provisions which the insurance company may be quite willing to waive while there are others which cannot be changed. Those provisions which may be waived give rise to various clauses designed to give the insured permission to do something which the policy prohibits without the consent of the insurer. Some illustrations of this type are:

a. A clause permitting the insured to move the property from the location described without voiding the policy.

b. A clause permitting extensive alterations and repairs to be carried on.

c. A clause permitting the premises to remain vacant for a period exceeding 10 days, or similarly to remain unoccupied.

d. A clause permitting overtime operations or night work in a manufacturing establishment.

e. A clause permitting some dangerous article to be stored on the premises.[5]

2. *Decreasing the liability or hazard.*—In special circumstances there are some risks which the insurer does not desire to assume, and there are others which he is willing to assume only under stipulated conditions. Clauses adapted to meet these conditions are either clauses in which the insurer disclaims liability or clauses in which he disclaims liability unless certain precautions are taken by the insured. The following are illustrations.

a. Spontaneous Combustion clause, by which the underwriter exempts himself from liability for fires resulting from spontaneous combustion of certain articles.

b. Consequential Damage clause, by which the underwriter exempts himself from liability for certain kinds of consequential damage; for example, the loss which would result from a change in temperature of a cold-storage warehouse, or the consequential damage resulting from a fall in temperature in a green-house.

c. Dynamo clause, which exempts the company from liability for damage to dynamos, switches, and electrical apparatus caused by electrical current unless it is the result of an outside fire.

[5] See Appendix XXXVIII.

d. Acetylene gas permit or warrant, which permits the use of acetylene gas provided the manufacturing machine is contained in a separate and independent building constructed according to specifications.

e. Gasoline permits, of a character similar to the above.[6]

f. A warranty that the premises will be occupied only by the owner and his family.

g. A warranty that in return for a reduced premium granted because of an automatic sprinkler system the insured will maintain said sprinkler in good condition and will not make alterations in the water supply without consent.

h. Permission for the use of electricity accompanied by certain warranties as to the nature of the installation and its maintenance.

3. *Clauses respecting title and interest.*—These are clauses which are necessary in order to permit the insurance of an interest other than sole and unconditional ownership. The two following are most important:

a. Mortgagee clause, which gives additional security to a mortgagee by exempting him from liability for the acts or omissions of the mortgagor, he in turn promising to do certain things for the benefit of the company.[7] This was fully discussed in the chapter on Insurable Interest.

b. Loss payable clause, which states that the loss, if any, is payable to a named party as his interest may appear.[8] This also was referred to in the chapter on Insurable Interest.

4. *Emergency Clauses.*—These are not in common use in the United States, with the exception of binders.

a. A binder in a sense might be considered a clause of this character, inasmuch as the conditions of the policy are made part of the binder and the binder thus becomes an attachment of the policy. The binder is used to give immediate protection until the policy is written.[9]

b. A clause providing that the insurance shall immediately cease in the event of an earthquake.

c. A clause providing that the company shall not be liable for loss or damage occasioned by or through any volcano, earth-

[6] See Appendix XXXVIII.

[7] See Appendices XXXII and XXXIII.

[8] See Appendix XXXVII.

[9] See Appendix XLI.

quake, hurricane or other eruption, convulsion, or disturbance of nature.

5. *Clauses limiting the amount payable.*—An effective method of exerting control over the insured is to insert a provision which will make the amount he can recover depend upon his actions. There are therefore clauses of various kinds designed to limit the amount for which the company shall be liable under specified conditions.

a. Three-fourths value clause, which provides that in the event of loss the company shall not be liable for more than three-fourths of the cash value of the property at the time of the loss. The object of the clause is to compel the insured to carry a portion of the risk himself and thereby induce him to exercise care so as to reduce the risk. The endorsement of the clause enables the risk to be written at a much lower premium than would otherwise be possible.

b. Three-fourths loss clause, which limits the liability of a company to three-fourths of the total loss sustained. The object and results of this clause are similar to those of the three-fourths value clause, but its provisions are even stricter than the provisions of the three-fourths value clause.

c. Coinsurance clause, which provides that the company shall be liable in the event of loss only in the proportion that the insurance taken bears to the insurance required to be taken.[10] Thus, an 80 per cent coinsurance clause requires that insurance be taken to the extent of at least 80 per cent of the value of the property and penalizes the insured in the event of loss unless this is done. A 100 per cent coinsurance clause requires that the insurance taken shall be equal to 100 per cent of the value of the property. This is a most common and important clause in fire insurance and an illustration of its operation will be useful.

Let us assume that a building is valued at $40,000 and is insured for $20,000 under a policy containing an 80 per cent coinsurance clause. This clause requires that the insured shall take insurance to the extent of 80 per cent of the value of the property ($32,000), but he has taken only $20,000 insurance and consequently, in the event of a $4,000 loss, he would be paid only that proportion of the $4,000 loss that the insurance taken ($20,000), bears to the insurance required, ($32,000), or five-eighths. He would therefore receive five-

[10] See Appendix XXXI.

eighths of $4,000, or $2,500, instead of the full indemnity, because he failed to carry the amount of insurance required. Suppose that under the same circumstances the loss had been total. The insured could recover five-eighths of $40,000, or $25,000, if he had that much insurance, but his recovery is limited by the face value of his policy to $20,000.

This is a frequently misunderstood clause, because it is usually considered as applying to loss payments, whereas it is equally logical to consider it as a part of the rate-making system. The reason for its existence lies in the fact that the great majority of losses are partial. Only one loss out of twenty-five is a total loss in cities and probably at least 70 per cent of the losses are under 10 per cent of the value of the property. The financial operations of the company are based upon the assumption that it takes in premiums sufficient to cover losses and in fixing the rate of premium, whether it be expressed or implied, there is considered a certain percentage of insurance to value. Knowing that few losses are total, a lower rate could be quoted to a person taking 100 per cent insurance than to one taking 10 per cent. On a $10,000 building a loss of $1,000 would be a total loss to the company in the latter case and only a 10 per cent loss in the former case. Now, if the same premium is charged these two property owners there is only one other way of protecting the insurance company and maintaining equity between the persons insured, which is to limit the amount which the under-insured person can collect in the event of loss. These two methods of adjusting the rate or adjusting the amount payable of losses can be made mathematically equivalent.

Viewed from the standpoint of the insured the coinsurance clause is equally necessary. If everyone could take whatever percentage of insurance he pleased and all received the same rate, the statistics cited above would show, on a moment's consideration, the financial benefit, in most cases, of taking only a small amount of insurance. The person taking a large proportion of insurance to value however, would be paying part of the premiums of those who were unwilling to take sufficient insurance. If, on the other hand, everyone took a small proportion of insurance to value all rates would have to be materially increased.

d. *The average clause.*—The object of the average clause is essentially different from the purposes of the three clauses just discussed. They were designed to provide for various

kinds of loss adjustments under particular circumstances, while the average clause provides for the distribution of the insurance in force. It reads, "this policy to attach in each building or locality in proportion as the value in each bears to that in all." It is true that this clause fixes the limit to which any policy is liable in any one particular place, or on any specified property, but if insurance is carried to the full value of all the property, the loss payment will not be limited by this clause. On the other hand, if the property is under-insured, then under this clause it is equally under-insured in every location. If the owner takes 50 per cent insurance he is 50 per cent under-insured in each location which the policy covers, irrespective of how the total value is distributed among the different locations.

## Chapter XVI

# FIRE INSURANCE RATES

**Divisions of the subject.**—The most general interest is naturally manifested in fire insurance rates because of the close connection between this subject and all other phases of the business. Premiums, reserves, state regulation, profits and commissions are all involved in the rate question. Fire insurance rating may be considered under two heads, (1) the medium or agency through which rates are promulgated and (2) the method or system by which rates are calculated. The medium or agency, as we have seen, is usually the underwriters' association, and we shall have to return to this subject in considering the regulation of rates by the several States. The system or method employed is little understood by the average person and this we will now examine.

**The factors involved.**—In order to fix equitable rates it is necessary to take into consideration at least three factors. In the first place time must be considered, inasmuch as the amount of fire loss does not remain uniform, some years being exceptionally unfortunate and others showing very light losses. Secondly, we shall have to consider the location, for losses in Pennsylvania are not necessarily the same as in New York. Some States, in fact, for unknown reasons, almost constantly show a bad experience. Thirdly, we must take into account the difference in hazard between classes of risks and individual risks. Naturally we will find churches better risks than cotton mills and it is equally certain that some cotton mills are much less hazardous than others.

**Classification.**—Under the earliest system in fire insurance all risks were charged equal rates, a method which ignores the elements we have referred to above and consequently is possible only in the primitive stages of the business. It was inevitable that as insurance really became a business underwriters should begin to classify risks into groups, some being charged higher rates than others. At one time only three classes were distinguished but later classifications multiplied exceedingly. When modern conditions were introduced into

industry the classification had to be extended to an extreme degree or some new method had to be introduced.

**Judgment rating.**—The net result was that rates began to be made largely on the basis of individual judgment. The inspector simply estimated from his experience the probable hazard of a risk and fixed a rate. The great disadvantage of this system, which endured for many years, was that not only did the judgment of different individuals vary but that at different times even the same inspector did not arrive at identical rates on the same risk.

**Schedule rating.**—In order to obtain consistency and equity it was necessary to substitute combined judgment for individual judgment, a result which was largely brought about by underwriters' associations and the development of schedules. This system involves the analysis of the elements of hazard and the assignment of a value to each element. Values were assigned to the different elements of hazard on the basis of the combined experience and judgment of many able underwriters. We will discuss later in this chapter some of the prominent schedules which resulted. It is sufficient now to know that the advantages of this method are: (1) that each feature of the risk is considered; (2) results are constant and, therefore, equitable in this respect; (3) eliminates many of the criticisms of the insured and of the legislator; (4) it encourages proper construction by penalizing defects; (5) it discourages discrimination in payments to brokers and agents for obtaining preferred risks, since all risks tend to be equitably rated and equally profitable; and (6) it results in more careful inspection and rating.

**Experience rating.**—The greatest defect of the schedule rating system as at present administered is claimed to be the lack of statistical evidence of the correctness of rates. Charges and credits are based upon opinion rather than upon figures. Recently, however, at least one underwriter has turned his attention to the development of a system designed to rest upon tabulated experience. This method will later be briefly described.

**Classification of rates.**—We must in the first place distinguish between rates upon buildings and upon their contents. The former are referred to as "building" rates and the latter as "contents" rates. In regard to fundamental principles, however, there is little difference between the two, although a satisfactory system must meet the requirements of both. Secondly, we find that rates naturally fall into three groups, depending

upon the term of the contract. An annual rate is the rate for insurance taken for a term of one year. A term rate is a rate for insurance for a term of more than one year. If an insured takes a five-year policy, for example, it may cost him only three times the annual premium. The reduction is due to the expense saved by the company, the extra interest earned upon the premium for the longer period it is held and the additional reserve which will be on hand in case of loss. A short rate is the rate paid by the insured who either takes insurance for a term of less than one year or who cancels his policy before the stipulated time has elapsed.[1] We also notice several classifications of rates depending upon the type of risk involved. A specific rate is a rate for an individual risk arrived at by the application of a schedule. Specific rates are almost sure to differ from each other, due to the different elements of hazard considered. On the other hand, a minimum rate is a rate designed to cover a grade of risks of substantially similar character, such as frame dwellings. All risks within the group receive the same rate. A blanket rate is a rate for insurance on risks in different locations, as where several different lumber yards are covered by the same policy. An average rate is a rate covering several risks of different character in the same location, as for instance, a rate named upon the contents of a department store. Minimum rates and schedule rates require further discussion.

**Minimum rates.**—The great importance of minimum rates is derived from the large number of risks subject to such rates. Minimum rates ordinarily apply to dwellings, churches and other classes of risks which do not differ sufficiently in character of construction to warrant the expense of applying a schedule. Referring to our historical development of rates these may be termed judgment rates. In a large city practically one-half of the number of buildings consists of dwellings, churches, etc., as contrasted with buildings employed exclusively for manufacturing and mercantile purposes. Their value and the amount of insurance written on them may, of course, be much below the insurance and value of business buildings. Measured in terms of dollars of premium the minimum rates class is inferior, but measured in terms of the number of persons interested this class is exceedingly important. The minimum rates are usually fixed by a committee of the local board of fire underwriters and, while many elements of hazard may be considered, the rates are

[1] See Appendix XLIV.

recorded and published without reference to these elements. The following is an example of the results which may be arrived at:—

TABLE OF MINIMUM RATES FOR PRIVATE DWELLINGS

| | *Per* $100 *insurance* | |
|---|---|---|
| | *One Year* | *Five Years* |
| Brick or stone dwellings | $.10 | $.40 |
| Household furniture in same | .20 | .80 |
| Small stores and dwellings—brick or stone | .125 | .50 |
| Stocks of merchandise in same | .50 | ... |

The rates upon risks of this character have been peculiarly subject to criticism. According to the testimony of rate experts rates upon such risks, which are based upon the aggregate loss theory, do not segregate, for example, the profits and losses of companies upon dwellings. It is possible under this theory for the rates on some classifications to be too low and for others to be too high. Inasmuch as (1) such policies are taken out by persons of moderate means; (2) it is easier to add to a small rate than to a large one; (3) high commissions are likely to be paid for this class of business and (4) it is a private rather than a business matter, discrimination between dwellings and other classes of risks is rendered probable and easy. On the other hand this business is harder to obtain and frequently lapses.

**Schedule rates.**—Manufacturing and mercantile properties are ordinarily rated by schedules. A common practice is to develop a mercantile schedule applicable in general to mercantile risks and a series of other schedules adapted to other groups. Such schedules analyze the various elements of construction, occupancy and exposure and build up a rate on the basis of the conditions found. The Universal Mercantile Schedule and the Analytic Schedule, which are in general use, vary from each other and both are different from the Experience Grading and Rating Schedule.

**Universal Mercantile Schedule.**[2]—We will first examine the principles upon which the Universal Mercantile Schedule is constructed, since this schedule was first in point of development and is used with slight variations in several of the large eastern cities. It is divided into two principal parts, the first dealing with conditions in the city where the risk is located, and the second with the conditions of the risk itself.

[2] For sample of a schedule see Appendix LI.

1. The schedule first defines a standard city and fixes a rate for a standard building in a standard city at 25 cents per $100 of insurance. In order to be considered as standard the city must possess a number of qualifications in respect to fire prevention and protection which need not be enumerated at length here. Some cities are superior to the standard city and consequently obtain a basis rate lower than that named, while others are charged for various defects so that their basis rates are higher than the figure given.

2. The rates referred to above are for a standard building in a standard city. A given building may or may not meet the standards required and accordingly the basis rate for a standard building in a given city will be raised or lowered by the good features or deficiencies of the building in question. Thus, to the basis rate for the building, 15 cents may be added for walls of insufficient thickness and 1 cent for a composition or gravel roof; 5 cents for thin flooring; 5 cents for extra height; 15 cents for open stairways, etc. A series of deductions from the rate in percentages for exceptionally good features are likewise offered. Thus, 5 per cent is allowed for tin or sheet iron between the floors; 1 per cent for parapet walls extending above the roof, etc.

These, it will be noticed, are all features of construction. The schedule also takes into account the nature of the occupancy. An occupancy table is drawn up and charges assigned to be added to the building rate for the various occupancies. For example, for advertising novelties 10 per cent is added to the rate, while for aluminum goods the addition is 3 per cent.

There are certain deductions for devices designed to prevent fire as, for instance, 5 per cent credit for an automatic fire alarm, 10 per cent for two or more hydrants, and 5 per cent for pails filled with water.

To the rate as ascertained up to this point, additions are made for coinsurance, adverse legislation and generally poor conditions. Thus, the rate up to this point is based upon the assumption that the insured takes out insurance to the extent of 50 per cent of the value of the property. If he is willing to insure only 20 per cent of the value his rate is increased by 30 per cent. If he is willing to insure 80 per cent of the value of the property his rate is reduced by 15 per cent. The reasons for such charges and credits are explained in Chapter XV. The schedule also provides for an increase of rates

where state laws are passed detrimental to the interests of insurance companies, such as valued policy laws, and for charges to be made where the premises are disorderly and unclean. The result then reached is the rate on the building.

In order to arrive at a rate upon the contents of the building, the same procedure is followed up to and including the point where an addition is made for occupancy. At this point there is deducted a sum equal to one-fourth of the deficiencies of the building and this is considered the basis rate for the stock. To this is added a figure from the second column of the occupancy table, previously referred to. Thereafter the rating process is very similar to that described for the building.

Where necessary, there is also taken into account the exposure of the risk, that is to say, the character of the surrounding buildings. The danger from fire consists not only of the possibility of a fire starting on the premises but also of fire being communicated from adjacent buildings. Space does not permit of a description of the methods followed for measuring exposure hazard, but the preceding remarks will convey the idea that it is not a haphazard process.

**The analytic system.**—It will be remembered that the charges in the Universal Mercantile Schedule were in flat amounts and the credits in percentages of the basis rate. The charges are the same for all kinds of buildings and for different periods of time, while the credits will, of course, vary with the basis rate. Mr. A. F. Dean developed the theory that while the elements of hazard undoubtedly bear some relation to one another, it was incorrect to attempt to fix a definite amount as the measure of an element of hazard. The result was the Analytic Schedule, which is considerably used in the Middle West. No measurements were to be in flat amounts; all were to be percentages of the basis rate and all were to be in the form of ratios. In this way it would be possible to construct a schedule, all items of which would depend on the basis rate, and underwriting judgment would be concentrated upon this one feature. Any variation in the basis rate would affect every item of the schedule.

We find that instead of a single basis rate, the schedule furnishes a series, ranging from 60 cents up to $1.20, the underwriter being free to select the basis rate which meets the needs of the locality and the time.[3] Thus, two factors are

[3] An example is given in Appendix LII.

taken into consideration which were not of any importance in the Universal Mercantile system. Cities are divided into seven classes, depending upon the degree of fire protection and upon the fire-fighting facilities. The basis rates named appear to be high, but this is merely because they are for a standard building much inferior to the standard prescribed in the Universal Mercantile Schedule. Most of the subsequent items are therefore charges, few credits being present. The charges and credits which are now made respectively for the deficiencies and good features of the building are all in percentages as before stated, and the extent of these is therefore dependent upon the basis rate selected.[4]

An addition is made to the rate for occupancies, the system in this respect also being a considerable improvement over the Universal Mercantile Schedule. The hazards of occupancy are very carefully measured, and the charges depend upon the tendency of an occupancy to cause fires, and on the combustibility or burning tendency of goods involved in certain occupancies; the third column, used for rating contents, considers the damageability of certain kinds of contents or the extent to which they may be injured by fire. In order to obtain a rate upon contents this latter column of the occupancy table[5] must be used, and the table is so arranged that in finding the proper figure to use for a rate upon contents, the basis rate of the building, the class of city, the location of the contents, and the character of the contents are all taken into consideration. The schedule also improves the analysis of exposure hazard, but this we will not attempt to describe here.

**The experience grading and rating schedule.**—Both of the schedules above described have the same essential defect from the standpoint of the insured and the legislator, in that they are not based upon statistics but upon underwriting judgment. This has been the crux of the whole controversy over the rate question. Later we will refer more in detail to some of the criticisms which have been urged against the fire insurance rating system. Mr. E. G. Richards has attempted to devise a system which depends upon the tabulation of actual experience. The proposition is to have for every risk written a card descriptive of its character and for every loss a card indicating the same facts. The card for the risks written would show the grade of

[4] See sample calculation in Appendix LV and LVI.

[5] See Appendix LIV.

town, whether the risk was a building or contents risk, whether a fireproof, brick or frame property, the grade of building, and the grade of contents. The loss card would show similar data for all risks on which losses had been incurred. It would then be possible by use of a mechanical tabulating machine to sort out any combination of cards desired and to find what the ratio of loss to insurance written had been for any combination of circumstances. Taking a concrete example, we might find that for a grade 5 wholesale grocery located in a brick building of the first class, with a grade 4 external exposure and a grade 2 internal exposure in a city of the first class, the ratio of loss to insurance written was $1.45 per $100. Adding to this an allowance for expenses and profit, the rate on a building of this type would then be, say, $2.59.

This is the average rate for risks of this kind over the entire United States. But the losses vary between States and an allowance must be made for this fact. Suppose that past experience shows the losses in the State of Pennsylvania to have been $1.01 per $100 of insurance on all types of risks, and a similar figure for the United States on all types of risks to have been $1.125. Then losses in Pennsylvania bear the relation to losses in the United States of 1.01 to 1.125. If the rate on the particular building referred to above is $2.59 for the United States as a whole, the rate on this same building for the State of Pennsylvania will be $\frac{1010}{1125}$ of $2.59, or $2.33.

In reaching the result many problems of classification have to be dealt with and many troublesome details in the calculation allowed for, so that the brief summary given above is hardly a fair representation of the method involved. For example, a schedule based upon a point system of charges and credits must be developed for the purpose of measuring the grade of building and the internal and external exposure, a schedule very similar in character to the Universal and Analytic Schedules previously described. But the details have been worked out by the author of the system with sufficient fulness to demonstrate that the plan is feasible, and aside from the novel statistical devices employed to attain the result, the outstanding feature is the principle of applying tabulated experience to the problem of calculating a fire insurance rate. This method, if put into practice, would probably require a great amount of statistical work but would conclusively answer nearly all of the criticisms which

have been directed against fire insurance rating systems of the past. In other words, there has been a widespread demand for a statistical justification of fire insurance rates and no other method proposed gives any promise of meeting this demand or of convincing the public that it is unnecessary and unjustifiable.

State regulation of rates.—State regulation of rates has naturally had their reduction mainly in view, an object which the legislators have sought to accomplish in two ways: (1) By laws primarily aimed at the bodies which make rates and (2) by statutes aimed at the rates themselves. The most satisfactory method of obtaining a picture of legislative tendencies is a brief review of the history of regulation.

Various complaints have been made of the operations of underwriters' associations. The fundamental objection was one to which we have already briefly referred, that underwriters failed to exhibit sufficient justification for rates promulgated. It was desired that the companies produce figures showing the experience upon various classes of risks and it has always been impossible to convince the public that a statistical justification of rates was an impossible and unprofitable task. The only attempts to meet this criticism have been (1) the theory advanced by Mr. Dean, that if exorbitant profits are not earned as a whole and if proper relations are maintained between risks, equity must result, and (2) the E.G.R. Schedule, which has never been put to practical use. While this objection was fundamental, the problem of discrimination was more easily comprehended by the average individual and obtained first consideration. There was a general conception that some classes of risks were receiving unjustly low rates, while other classes were overcharged to make up for the deficiency in premiums so created. It was perfectly apparent also that there was discrimination between localities. How could it be otherwise when different schedules and different rules for rating risks were in use in different parts of the country? The subject for discussion was, therefore, not only whether dwellings or business properties were overcharged, but whether city property was overcharged for the benefit of rural risks and whether St. Louis rates were equitable as compared with New York rates. Discrimination was also found between different kinds of policies, term rates being granted on some risks and withheld on others. The worst form of discrimination alleged and the one of which the least

proof was presented was that between individuals. Large corporations were said to have privileges and rights which were inaccessible to the small property owner. A third evil complained of was the arbitrary regulation of agents and brokers, who were strictly supervised by underwriters' associations and not always in an impartial manner.[6] The complaints briefly classified were (1) lack of statistical justification for rates, (2) discrimination, and (3) arbitrary regulation of brokers and agents.

As a result of these conditions fire underwriters' associations came to be generally considered as evil combinations or pools detrimental to public interests, although they performed many legitimate economic functions. The earliest actions against them were at common law on the ground that they were against public welfare. Since the common law doctrine is that contracts in unreasonable restraint of trade are simply void, and unenforceable, no adequate redress could be obtained. Furthermore, it was required to show that the restraint experienced was unreasonable and affected an article of necessity. Insurance, however, was generally held to be not a necessity of life, although we have seen that, under modern economic conditions, it most assuredly is.

Later, a general antipathy to trusts arose, followed by the passage of a number of State anti-trust laws. These laws prohibited contracts and agreements in restraint of "trade," "commerce," "business," "dealings in commodities," "products," etc., and the question had to be decided as to whether such expressions could be considered as including insurance. The natural result of this inquiry was the decision, in many cases, that the wording of the acts was too general to reach the business of insurance.

The anti-trust laws in some cases were then made more specific, and amended so as to include "mechanisms," "conveniences," and also the "price or premium to be paid for insuring property against loss or damage by fire." These may be termed anti-compact laws, to distinguish them from the preceding class of statutes. The only defense against such laws was to claim that they violated State and Federal constitutional guarantees of the right of contract, equal protec-

[6] For a discussion of the complaints against fire insurance rating and underwriters' associations, see Robert Riegel, "Fire Underwriters' Associations in the United States," *Chronicle* Company, Ltd., New York, 1916, and Robert Riegel, "Fire Insurance Rates," in the *Quarterly Journal of Economics,* August, 1916.

tion of the laws and due process of law. In most of the cases, however, the insurance companies were unsuccessful. The cooperative making of rates was therefore legally impossible in some States except by subterfuge.

The next type of legislation showed an entire reversal in attitude. Whereas the previous laws had all claimed that concerted action and common rates were detrimental to the public, the new State rating laws required an identical charge for the same risk by all companies, but designated the State as the judge of what the rates should be. These laws are of three varieties, some requiring the filing of rates, others providing for the revision of rates found to be unfair, and still others making the establishment of rates a State function.

We find at the present time, therefore, the following methods of regulation employed in various parts of the United States, exclusive of the general, vague and inadequate provision that there shall be no discrimination in rates.

1. The Anti-Trust Act, generally considered inapplicable to fire insurance combinations.

2. Anti-trust acts designed to apply specifically to fire insurance and generally successful in this respect.

3. Acts requiring the filing of rates for public inspection, some slight power of regulation being given to the insurance commissioner.

4. Acts permitting insurance companies to make and file rates, but giving the department of insurance power to revise rates when found to be inadequate, unreasonable or discriminatory, and to examine and regulate rate-making associations.

5. Acts placing the rate-making power in the hands of the State.

## Chapter XVII

# FIRE INSURANCE RESERVE

**Definition of the reserve.**—The reserve at any given time is that portion of the premium income which is held in trust by fire or casualty insurance companies and is not yet earned, owing to the fact that the policy-holders have not yet received the full term of protection for which the premium was collected. It is the natural result of collecting the price in advance and delivering the product in the future. The policy-holders pay for their insurance in advance for one year, often for three or five years, or even for longer periods; in fact, it is possible to secure a perpetual policy by the payment of one premium of sufficient size.[1] In all these cases the company is holding prepaid premiums on policies for various terms, and from the time of the payment of the premium and the inception of the policy to its expiration, the insured has a decreasing and the insurer an increasing equity in the premium. While the entire premium is in the possession of the insurance company, only that proportion which is equivalent to the expired portion of the policy really belongs to the company. The remainder is held by the company as an "unearned premium reserve" or "unearned premium liability," as it is sometimes called. It is this sum which is sometimes called the "reinsurance reserve," although this term is open to misinterpretation. "Reinsurance" implies that this sum is necessary for reinsuring the risks and is held for that purpose. But this is purely incidental, as we shall see later, and is not the primary reason for holding a reserve.

**Object of the reserve.**—The reserve from the standpoint of the State may be regarded as a necessity for solvency, which cannot be determined without a comparison of all assets and liabilities, among which latter the paid-for protection must be included. As shown later, however, this is a very arbitrary method of evaluating the company's contingent liabilities. From the standpoint of the insured the reserve may be regarded as a fund which enables the company to return the unearned portion of the premium in case of cancellation, and provides for the reinsurance of the risks with other companies.

[1] See Appendix XXIX.

It is very important to the insured, for example, to know that the insurance company has laid aside a sufficient sum to take care of all possible losses. If this were not done by maintaining a reserve of the unearned premium the company would be gambling on the probabilities of loss and endangering its future solvency. As was mentioned before, this reserve is a trust fund, and in that respect is very similar to the reserve held by life insurance companies. In Chapter XIV one of the provisions of the standard policy discussed was the cancellation clause, which provides that either the company or the insured may cancel, upon proper notice. It necessarily follows that the company must always be in a position, in such cases, to return the unearned portion of the premium. Also, if the company desires to retire from business and to transfer the risks to another company, the reinsurance reserve alone makes this possible. It is not to be inferred from this that another company will assume these risks under all circumstances for exactly the amount of the reinsurance reserve, for this depends on the character of the risks that are being carried. If the underwriting methods of the retiring company have been conservative it may be that another company will be glad to assume the business for an amount less than the unearned premium reserve. On the other hand, if a reckless or unfortunate company has accumulated undesirable risks on its books it may be that the reserve held would be considered insufficient. In fact, when a company goes out of business, it is most frequently due to unsuccessful methods of underwriting, and the accompaniment is usually an inadequate reserve. In these cases the transfer of the risks often requires a sum exceeding the reserve.

**Importance of the reserve in regard to premium payment.**—It is the maintenance of this reserve that makes it possible to pay premiums in advance with safety. The insured knows that the portion of his premium which the company has not earned is kept in a separate fund and that he may secure his proper share of it if he surrenders his policy before maturity. Besides, the knowledge that this sum is subject to State supervision reassures him when prepaying the premium for one, three, or perhaps five years. Thus, if on July 1st the company insured property for one year and collected $365 premium, on August 1st only $31, or thirty-one days' premium could actually be considered earned by the company on that particular

policy. The other $334 belongs to the insured. The company under this contract is supposed to furnish protection for the remainder of the year and can claim the premium as its own only in the proportion that protection has been given; at any time the balance in its possession is unearned and is held for the benefit of the policy-holder. A calculation as exact as the above, where the premium is reduced to a daily basis, is seldom made because of the unnecessary detail involved. Methods of satisfactory approximation will be described later.

**Financial importance of the reserve.**—From a financial standpoint the size and importance of the reinsurance reserve is to the fire insurance companies what the prospective or legal reserve is to the life insurance companies. If the probability of fire loss could be as accurately forecasted as the chances of death, a similar method of reserve calculation might be employed. Owing to the comparatively short period for which fire policies are written (usually for one year and seldom for more than five), the reserve per $1,000 of insurance is never nearly so large on the average as the reserve of life companies. The life insurance companies in building up their reserves are preparing to meet the face of their policies, knowing that death must occur, but in fire insurance only a comparatively small number of policies ever give rise to claims. If life insurance were written only on the term plan of from one to five years, then its reserve would also be far less per $1,000 of insurance. Nevertheless, the financial importance of the fire insurance companies lies in the reserve, which is the most important item in their business. A balance sheet of a large stock fire insurance company is shown below and a comparison of the unearned premiums (which is the reinsurance reserve) with the other items will serve to show the relative importance of the former.

LEDGER ASSETS

| | |
|---|---|
| Book value of bonds | $1,304,703 36 |
| Cash in company's office | 1,283 50 |
| Deposits in trust companies and banks *not on interest* | 42,191 86 |
| Deposits in trust companies and banks *on interest* | 509,921 63 |
| Agents' balances representing business written subsequent to October 1, 1918 | 183,115 78 |
| Agents' balances representing business written prior to October 1, 1918 | 1,829 57 |
| Total | $2,043,045 70 |

NON-LEDGER ASSETS

| | | |
|---|---|---|
| Interest accrued on bonds | | 11,926 95 |
| Market value of bonds over book value | | 15,011 64 |
| Gross Assets | | $2,069,984 29 |

DEDUCT ASSETS NOT ADMITTED

| | | |
|---|---|---|
| Agents' balances representing business written prior to October 1, 1918 | $1,829 57 | |
| Market value of special deposits in excess of corresponding liabilities | 38,834 49 | |
| Total | | 40,664 06 |
| Total Admitted Assets | | $2,029,320 23 |

LIABILITIES

| | | |
|---|---|---|
| Losses and claims for losses: | | |
| Adjusted and unpaid | $4,634 09 | |
| Unadjusted plus $13,156.97 reserve for losses incurred prior to December 31 of which no notice had been received on that date | 355,608 02 | |
| Total | $360,242 11 | |
| Deduct reinsurance in companies authorized in New York | 195,478 08 | |
| Net unpaid losses and claims | | $164,764 03 |
| Unearned premiums: | | |
| Fire | $344,939 40 | |
| Team and automobile | 131,547 66 | |
| Marine | 13,238 23 | |
| Total | | 489,725 29 |
| Salaries and miscellaneous accounts due or accrued | | 2,500 00 |
| Estimated amount of taxes hereafter payable | | 30,000 00 |
| Liabilities, except capital | | $686,989 32 |
| Capital | $500,000 00 | |
| Special reserve fund | 250,000 00 | |
| Guaranty surplus fund | 250,000 00 | |
| Surplus | 342,330 91 | |
| Surplus to policy-holders | | 1,342,330 91 |
| Total | | $2,029,320 23 |

**Calculation of the reserve.**—The reinsurance reserve has been described as the unearned premium liability of the company. An accurate application of this idea would mean that every policy reserve would be calculated separately, taking into consideration the exact proportion of the policy term that had expired. With perhaps 1,000,000 policies outstanding, this would involve an enormous amount of work. Therefore, some method of approximation had to be devised, and an assumption is made that as much business is written in one portion of the period under consideration as another.

This, however, is not always true because in most cases the business is increasing, and the amount of insurance written in December of a certain year will exceed that written during the preceding January. Nevertheless, the method of approximating the legal reserve as required by the several States is to assume that an equal amount of insurance is written in each period, which is the same as saying that all of the business was written in the middle of the period. Policies written January 1st have expired at the end of the year, while policies written December 31st have 365 days to run, the average for both groups being about 182 days. Policies written February 1st have at the end of the year about one month to run, while those written December 1st have eleven months, the average for both groups being six months. It follows that in the case of one-year policies a company is required to have on hand as legal reserve only one-half of the premium income on those policies. For policies longer than one year the requirement is usually *pro rata*. Thus, on all of the two-year policies written the same year it would be assumed that six months' premium out of twenty-four or one-fourth is earned, and that at the end of the year the unearned portion is three-fourths of the premium income; on three-year policies, five-sixths of the premium would be a reserve liability; on four-year policies seven-eighths and on five-year policies nine-tenths, as shown by the table on p. 251

Many companies for their own use divide their business into much shorter periods than is specified by law. Their purpose is to calculate the reserve more accurately, since the smaller the period the more accurate the result. Frequently the monthly basis is used, assuming that as much business is written the first half of the month as the last. This is only the

application of the average principle to a shorter period. Thus, on one-year policies written during May, it is assumed that at the end of the month one-twenty-fourth of the annual premium has been earned, at the end of June, three twenty-fourths, at the end of the next April, twenty-three twenty-fourths, etc.

The operation of the reserve may be more closely traced in the illustration given below.

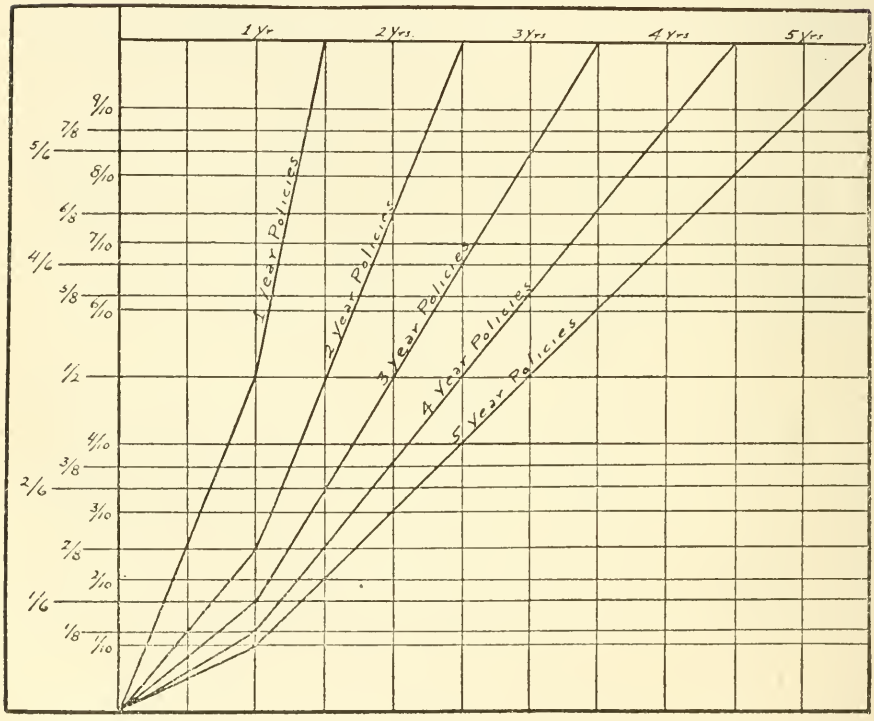


ILLUSTRATION OF RESERVE CALCULATION

| *End of Year of Valuation* | *Year Policies Were Written* | *Term of Policies* | *Amount of Premiums Received* | *Fraction Earned During Current Year* | *Amount Earned During Current Year* | *Fraction Unearned to Date of Valuation* | *Amount Unearned to Date (Reinsurance Reserve)* |
|---|---|---|---|---|---|---|---|
| 1917 | 1917 | 1 year | $40,000 | 1/2 | $20,000 | 1/2 | $20,000 |
| | | 3 years | 18,000 | 1/6 | 3,000 | 5/6 | 15,000 |
| | | 5 years | 10,000 | 1/10 | 1,000 | 9/10 | 9,000 |
| | Total | Reserve | necessary | at end of | Year 1917 | ..... | 44,000 |
| 1918 | 1917 | 1 year | 40,000 | 1/2 | 20,000 | none | none |
| | | 3 years | 18,000 | 2/6 | 6,000 | 3/6 | 9,000 |
| | | 5 years | 10,000 | 2/10 | 2,000 | 7/10 | 7,000 |
| | | Unearned | Premium | on 1917 | business.. | ..... | 16,000 |
| | 1918 | 1 year | 60,000 | 1/2 | 30,000 | 1/2 | 30,000 |
| | | 2 years | 20,000 | 1/4 | 5,000 | 3/4 | 15,000 |
| | | 3 years | 24,000 | 1/6 | 4,000 | 5/6 | 20,000 |
| | | 5 years | 20,000 | 1/10 | 2,000 | 9/10 | 18,000 |
| | | Unearned | Premium | on 1918 | business.. | ..... | 83,000 |
| | Total | Reserve | necessary | at end of | Year 1918 | ..... | 99,000 |
| 1919 | 1917 | 1 year | 40,000 | ..... | ..... | none | none |
| | | 3 years | 18,000 | 2/6 | 6,000 | 1/6 | 3,000 |
| | | 5 years | 10,000 | 2/10 | 2,000 | 1/2 | 5,000 |
| | | Unearned | Premium | on 1917 | business.. | ..... | 8,000 |
| | 1918 | 1 year | 60,000 | 1/2 | 30,000 | none | none |
| | | 2 years | 20,000 | 1/2 | 10,000 | 1/4 | 5,000 |
| | | 3 years | 24,000 | 2/6 | 8,000 | 1/2 | 12,000 |
| | | 5 years | 20,000 | 2/10 | 4,000 | 7/10 | 14,000 |
| | | Unearned | Premium | on 1918 | business.. | ..... | 31,000 |
| | 1919 | 1 year | 80,000 | 1/2 | 40,000 | 1/2 | 40,000 |
| | | 2 years | 40,000 | 1/4 | 10,000 | 3/4 | 30,000 |
| | | 3 years | 42,000 | 1/6 | 7,000 | 5/6 | 35,000 |
| | | 4 years | 24,000 | 1/8 | 3,000 | 7/8 | 21,000 |
| | | 5 years | 40,000 | 1/10 | 4,000 | 9/10 | 36,000 |
| | | Unearned | Premium | on 1919 | business.. | ..... | 162,000 |
| | Total | Reserve | necessary | at end of | Year 1919 | ..... | $201,000 |

It is here assumed that the company began business in 1917 and during the year received a premium income of $40,000 on one-year policies, $18,000 on three-year policies and $10,000 on five-year policies. The second year of business, 1918, the company received $60,000 on new one-year policies, $20,000 on new two-year policies, $24,000 on new three-year policies, and $20,000 on new five-year policies. The third year on new policies written it received $80,000 on one-year policies, $40,000 on two-year policies, $42,000 on three-year policies, $24,000 on four-year policies, and $40,000 on five-year policies. Applying the table on page 251, we find that in 1917 the company earned one-half of the premiums received for one-year policies or $20,000, one-sixth of the premiums on its three-year policies or $30,000, and one-tenth or $1,000 on the five-year policies. Deducting this from premiums originally collected leaves an unearned premium of $20,000 on the one-year policies, $15,000 on the three-year policies, and $9,000 on five-year policies, or a total of $44,000 on hand at the end of the first year's business.

In the year 1918 the company earned the remaining one-half of the premium on the one-year policies written in 1917, or $20,000, on the three-year business written in 1917, it earned two-sixths or $6,000, and on the five-year business two-tenths or $2,000, which, considering the premiums previously earned, leaves at the end of the second year an unearned premium of $16,000 on the business written during the first year of their existence. During the year 1918, however, the company has written some new policies. On the one-year policies it earned $30,000, on the two-year policies $5,000, on the three-year policies $4,000, on the five-year policies $2,000, making a total of $83,000 as the unearned premium on the current year's business. This, added to the $16,000 from the previous year's business, makes a grand total of $99,000, which should be held as the unearned premium reserve at the end of the year 1918.

In the year 1919, we find that on the three-year policies written in 1917, two-sixths was earned or $6,000, on the five-year policies written that year two-tenths was earned or $2,000, leaving $8,000 as yet unearned on policies written the first year. On the 1918 business the other one-half of the $60,000 on one-year policies written in 1917 has been earned; on the two-year policies written in 1918, one-half of $20,000 or

$10,000 was earned during the current year; two-sixths was earned on the three-year policies or $8,000; and two-tenths on the five-year policies or $4,000, which left at the end of 1919 an unearned premium of $31,000 on the business written in the second year. During the current year one-half of the premium income on one-year policies or $40,000 was earned; on the two-year policies one-fourth or $10,000 was earned; on the three-year policies one-sixth or $7,000; on four-year policies one-eighth or $3,000; on five-year policies one-tenth or $4,000. This made a reserve liability of $162,000 for the 1919 business, which, added to the unearned premiums of $31,000 for 1918 business and $8,000 for 1917 business, made a total unearned premium liability of $201,000 at the close of business on December 31st, 1919. This same operation is repeated year after year, always carrying over the unexpired portions of the policies written in previous years, with the results indicated by the table.

State legislation relating to the reserve.—It has been explained that the reserve in fire insurance is a trust fund and, like every fiduciary relationship, is subject to State regulation. Knowing that the future depends on the solvency of the company, precautions are taken to see that the premiums paid in advance are properly safeguarded. The amount which a company is usually legally required to hold is calculated on page 251. To quote a typical State insurance law in this connection, the Insurance Commissioner is directed as follows: "In determining the liabilities of a fire insurance company, charge the insurance company 50 per cent of the premiums written in their policies upon all unexpired risks that have one year, or less than one year, to run, and a pro rata of all premiums on risks having more than one year to run; on perpetual policies, charge the deposit received less a surrender charge of not exceeding 10 per cent thereof." In regard to perpetual policies it should be mentioned that the company assumes that sufficient interest will be earned on the premium paid to be equivalent to the regular term rate. Therefore, practically the entire initial premium should at all times be intact. The accuracy of the above calculation in regard to term policies has been discussed earlier in the chapter. It might be added here, however, that great difficulty confronts the State when any other assumption is used, since there is nothing in fire insurance comparable to the American Experience Table used

for life insurance reserve evaluation. It is assumed that the underwriting methods of the company are sufficiently safe and the premiums charged have been calculated with a view to making a profit. Therefore a reserve equal to the unearned premium liability is generally conceded to be sufficient when calculated in the above manner. This, as we have seen, may or may not be true, depending on the character of the risks and the distribution of business throughout the year.

It has even been argued that in many cases this method of ascertaining legal reserve requirements works an undue hardship on new and small companies. We have seen in Chapter VI that while life companies are allowed to evaluate their policies in various ways, such as the "preliminary term plan," the "modified preliminary term plan," etc., to enable them to meet the early incidence of expense, this privilege is denied to fire insurance companies. To demonstrate the effect of this on a new company, let us assume that a new fire insurance company with a capital of $100,000 began on January 1st, 1920. During the year the policy premiums collected on one-year policies amounted to $100,000. Suppose that the acquisition expense was $30,000 (which would be quite low for the first year of business), and that the claims paid or accrued amounted to $45,000; there would remain a surplus of $25,000 on hand to be applied as the unearned premium reserve. But the State law specified that the company should have had one-half of its premium income on one-year policies, or $50,000, in reserve; since they had only $25,000, their capital was impaired to the extent of $25,000. Originally only $100,000, it is now reduced to $75,000. So even where the law allows a 20 per cent impairment of capital this company would not have met the legal requirements. From this it can be seen that a reserve requirement may hamper the operation of a young fire insurance company to a very great extent. There is no scientific method of ascertaining the reserve except by calculating the present value of future losses, a method which is impracticable because of the great diversity in classes of risks and the uncertainty of estimating the probability of future losses, an uncertainty far greater than in life insurance. In addition the frequent but irregular occurrence of great conflagrations makes additional precautions necessary; but fatal epidemics, such as the recent wave of influenza, rarely disturb the even course of human mortality.

To further stabilize insurance companies and prevent insolvencies, the States frequently specify the types of securities in which the reserve may be invested, enforcing restrictions very similar to those for life insurance companies, as outlined in Chapter VII. Besides, it is frequently required that both domestic and foreign companies make a deposit of approved securities with the State for the purpose of guaranteeing solvency. This sum, however, is usually inadequate as a reserve, and does not approach the unearned premium liability. A more stringent requirement than a "special deposit" in the form of a flat sum is one which requires approved securities to an amount equal to the unearned premium liability. This serves the double purpose of subjecting the assets to close scrutiny and at the same time preventing fraudulent manipulation by placing this "trust fund" beyond the reach of the individual officers of the company.

It should be mentioned that the above applies principally to the stock companies, mutuals usually being allowed to regulate the reserves as they see fit and make assessments when found necessary. The different conditions of organization and the relative merits of these two types of companies have been discussed elsewhere.

## Chapter XVIII

# SETTLEMENT OF LOSSES

**Classification of provisions applying to loss settlements.**—The policy provisions which remain for discussion apply after a loss has taken place. They may be divided into four groups: (1) those referring to the preservation of the property, (2) those dealing with the proof of the amount lost, (3) those providing for the settlement of disagreements, (4) those determining the extent of the company's net liability. With regard to the requirements made of the insured, the courts have been lenient when they apply after a fire has occurred, while the requirements before a loss have been regarded as more important because they may serve to prevent a fire. We will discuss the policy provisions in the order in which they would naturally come into play in the course of the adjustment of a loss.

**Provisions referring to the preservation of property.**—The policy requires that "the insured shall give immediate notice to this company of any loss or damage."[1] That the insurer is entitled to notice of this important event is clear, inasmuch as it enables him to take action to reduce the loss by protecting the property, to investigate the cause of the fire and better to determine his liability. Without such notice it is usually held that he is released from liability. But "immediate notice" is not always the prompt action which might be supposed. While it would be unsafe for an insured to presume upon the leniency of the courts, it has been held that immediate notice is notice given within a reasonable time and that a delay of thirty days may be justifiable under certain circumstances. In another case seven days has been held to be an unreasonable delay, sufficient to release the company from liability.

The next action required of the insured is to "protect the property from further damage."[2] For such further damage resulting from neglect the insurance company is not liable, ac-

[1] Appendix XXX, lines 126-128.

[2] Appendix XXX, lines 128 and 129.

cording to several decisions, since the fire policy is not designed to protect the insured against his own negligence or carelessness, but only against the danger of loss by fire. The cost of protecting the property is naturally considered a part of the loss.

After this has been done the insured is required to "forthwith separate the damaged and undamaged personal property and put it in the best possible order."[3] This tends to protect such goods as are undamaged and enables the representative of the company to make an examination of the property and to take necessary measures for further protection. The insured is not required by this provision to restore the goods to the same conditions as existed before the fire.

Estimation of amount of loss.—The next few requirements are designed to enable an estimate of the amount of loss. The insured is required to "furnish a complete inventory of the destroyed, damaged and undamaged property, stating the quantity and cost of each article and the amount claimed thereon."[4] This is in the nature of a preliminary proof of loss. This provision is not a mere direction to the insured of what his action should be, but is essential to enable him to claim from the company.

"And the insured shall within sixty days after the fire, unless such time is extended in writing by this company, render to this company a proof of loss signed and sworn to by the insured, stating the knowledge and belief of the insured as to the following: (a) the time and origin of the fire; (b) the interest of the insured; (c) and of all others in the property; (d) the cash value of each item thereof; (e) and the amount of loss or damage thereto; (f) all encumbrances thereon; (g) all other contracts of insurance whether valid or not, covering any of said property; (h) any changes in the title, use, occupation, possession, or exposure of said property since the issuing of this policy; (i) by whom and for what purpose any building herein described and the several parts thereof were occupied at the time of the fire."[5] We might call attention here to the policy provision previously referred to regarding false swearing and fraud,[6] which is not lightly

[3] Appendix XXX, lines 129 and 130.

[4] Appendix XXX, lines 130-133.

[5] Appendix XXX, lines 133-145; and Appendix XLVI.

[6] Appendix XXX, lines 1-6.

regarded by the courts in the proof of loss, whatever may be the attitude toward it at other times. The object of the proof of loss is to enable the insurance company to determine whether or not it will assume liability for the loss and to what extent. A time limit is placed upon furnishing the proof of loss, but this has been sometimes leniently construed by the courts. A form such as is shown in the appendices is furnished to the insured for the purpose of making a proof of loss.[7] In several cases it has been held that these requirements are inoperative as regards a mortgagee because the company's contract with him is held to be a new contract. If the owner does not furnish a proof of loss the mortgagee may do so for the protection of his interest. The new standard policy provides that "upon failure of the insured to render proof of loss, such mortgagee shall as if named as insured hereunder, but within sixty days after notice of such failure, render proof of loss and shall be subject to the provisions hereof as to appraisal and times of payment and of bringing suit."[8]

"And shall furnish a copy of all the descriptions and schedules in all policies and if required, verified plans and specifications of any building, fixtures or machinery destroyed or damaged."[9] This is inserted to assist the company in identifying the property destroyed and in estimating the value of such property. In many cases this saves the time which would be necessary to examine the physical property itself. "The insured as often as may be reasonably required shall exhibit to any person designated by this Company all that remains of any property herein described and submit to examinations under oath by any person named by this company and subscribe the same."[10] This enables the company to protect itself against fraud or the illegal appropriation of any of the goods insured. For the same reason the insured "as often as may be reasonably required, shall produce for examination all books of account, bills, invoices, and other vouchers or certified copies thereof, if originals be lost, at such reasonable time and place as may be designated by this company or its representatives and shall permit extracts and copies thereof to be made."[11] These requirements are important to the com-

[7] See Appendix XLVI.
[8] Appendix XXX, lines 112-116.
[9] Appendix XXX, lines 145-148.
[10] Appendix XXX, lines 148-153.
[11] Appendix XXX, lines 153-158.

pany and have generally been given effect by the courts, but the companies, to insure the production of books and papers, have sometimes used a so-called iron-safe clause, whereby the insured was required among other things to keep books and papers in a fireproof safe at night on penalty of voiding the contract, but this was so leniently regarded by the courts as to make its effect ludicrous. The time and place of examination of the insured and of his books and papers must be reasonable. The place of the fire has been held a reasonable place.

Agreement and appraisal.—We have now seen what the insured is required to do after a loss occurs. When the insured has complied with these regulations, a special agent of the insurance company under the title of an adjuster and the insured or his representative must endeavor to settle upon the amount to which the insured is entitled. If the two parties agree the policy provides that "the amount of loss or damage for which this company may be liable shall be payable sixty days after proof of loss as herein provided is received by this company and ascertainment of the loss or damage is made either by agreement between the insured and this company, expressed in writing or by the filing with this company of an award as herein provided."[12] As previously stated, the insured cannot under a fire policy abandon the property and claim the full amount of insurance.[13] If the parties cannot agree upon the amount of loss and damage an appraisal is necessary as provided for in the policy.

"In case the insured and this Company shall fail to agree as to the amount of loss or damage, each shall, on the written demand of either, select a competent and disinterested appraiser. The appraisers shall first select a competent and disinterested umpire; and failing for fifteen days to agree upon such umpire then, on request of the insured or this Company, such umpire shall be selected by a judge of a court of record in the State in which the property insured is located. The appraisers shall then appraise the loss and damage, stating separately sound value and loss or damage to each item; and failing to agree, shall submit their differences only, to the umpire. An award in writing, so itemized, of any two when filed with this Company shall determine the amount of sound value

[12] Appendix XXX, lines 185-191.
[13] Appendix XXX, lines 182-184.

and loss or damage. Each appraiser shall be paid by the party selecting him and the expenses of appraisal and umpire shall be paid by the parties equally."[14] The demand for appraisal cannot be made until the insured has submitted his claim to the insurance company and the company has made an unsuccessful offer of settlement. Either party may then require an appraisal, which does not establish the liability of the company but merely the amount of liability if any exists. The umpire acquires the right to act only after the appraisers have disagreed. The appraisal is concerned largely with matters of fact. Whether the loss should be settled on the basis of market value or on the cost of reproduction would hardly be a pertinent question. Nor can the demand for an appraisal be made conditional upon some other thing being done by the insured or by the company, for it then loses its value, as, for instance, where it was required that tobacco should be sold at auction and the sale price introduced as evidence of the value. The parties usually sign an appraisal agreement[15] in which the appraisers are named and declare themselves to be disinterested parties, although no such written agreement is required. Whether an appraiser is competent as required by the provision depends upon what he has to do. In many cases a professional appraiser is selected by the company or the insured, and the question then arises as to whether such a party is disinterested as the policy demands. The mere fact that he has previously adjusted losses for the same company would not prove that he was an interested party but might be some evidence to this effect.

The courts of nearly every State have held that if either party requests an appraisal such is necessary before a suit can be maintained and a recovery had upon the policy. In Pennsylvania and Nebraska, however, this agreement to appraise is held to be revocable by either party and the bringing of an action in court constitutes such a revocation. The parties are not permitted, in the language of these courts, to "oust the courts of their general jurisdiction." In those States where a valued policy law is in force, there is no provision for an appraisal and if one is obtained, its result will not be enforced by the courts.

[14] Appendix XXX, lines 159-175.
[15] Appendix XLV.

**Suits.**—If the question of the liability of the company is involved, the case may be brought into court regardless of the action of appraisers. The policy provides that "No suit or action on this policy, for the recovery of any claim, shall be sustainable in any court of law or equity unless all the requirements of this policy shall have been complied with, nor unless commenced within twelve months next after the fire."[16] The object is to prevent unreasonable delay upon the part of either the company or the insured which may make the determination of the rights of the parties more difficult.

**Net liability of the company.**—The next question which presents itself after the liability of the company has been proved is the net amount for which the company is liable, In this connection it must be borne in mind that subrogation is a settled principle of insurance. The policy also specifically provides that "This Company may require from the insured an assignment of all right of recovery against any party for loss or damage to the extent that payment therefor is made by this Company,"[17] and "On payment to such mortgagee of any sum for loss or damage hereunder, if this Company shall claim that as to the mortgagor or owner, no liability existed, it shall, to the extent of such payment be subrogated to the mortgagee's right of recovery and claim upon the collateral of the mortgage debt, but without impairing the mortgagee's right to sue, or it may pay the mortgage debt and require an assignment thereof and of the mortgage."[18] The right of subrogation may be defined as the right of an insurance company, after paying a loss to the insured, to acquire all rights possessed by the insured against third parties which are related to such loss. These rights may be legal, contractual or equitable.

One very common right is the right of a mortgagee who is insured under a separate policy to collect his debt from the mortgagor. Suppose a property worth $10,000 serves as security for a debt of $8,000 and that a loss of $4,000 takes place. Naturally, since the security of the mortgagee has been decreased by nearly one-half, he expects to be and is reimbursed by the insurance company. But the mortgagee still has the right to collect his debt from the debtor, and to permit

[16] Appendix XXX, lines 192-196.
[17] Appendix XXX, lines 197-200.
[18] Appendix XXX, lines 116-123.

him to retain this right would be to permit him to collect the same debt twice. Therefore by the principle of subrogation the right to the debt is transferred to the insurance company which has paid the loss. A similar situation arises where the mortgagor and mortgagee are protected by a policy issued to the mortgagor with the endorsement of a mortgage clause and the policy becomes void as to the mortgagor, but is in full force as regards the mortgagee. The company makes payment to the mortgagee to the amount of the damage and receives an assignment of his rights to that extent, or pays the full amount of the debt and receives an assignment of the entire debt and mortgage. The policy provides that rights of the mortgagee are not to be prejudiced by this method of settlement.

Another example of the right of subrogation is found where the fire is caused by the negligence of a third party, for which negligence the party whose property is damaged may recover at law. If the person damaged recovers from the insurance company, however, the right to recover from the negligent third party passes to the insurance company. A policy of insurance issued to a tobacco company covered, among other items, several thousand dollars worth of unused internal revenue stamps. These, with other property, were lost and the insurance company paid the loss. Under United States' statutes the stamps were redeemable from the United States Government, and the underwriters, having paid the loss, claimed and received reimbursement from the Government.

In many cases the insured has several policies covering the same interest in the same property. In case of a large risk, in fact, he is often compelled to seek several companies in order to secure full protection. To cover this situation the policy provides that "This Company shall not be liable for a greater proportion of any loss or damage than the amount hereby insured shall bear to the whole insurance covering the property, whether valid or not and whether collectible or not."[19] Applying this to a specific case, let us assume that company "A" insures a $50,000 property for $20,000, and company "B" insures the same property for $10,000. A loss of $3,000 occurs. The above provision of the contract makes company "A" liable for the proportion that its insurance ($20,000) bears to the total insurance ($30,000) or two-thirds of the loss

[19] Appendix XXX, lines 101-105.

of $3,000, that is, a liability of $2,000. Company "B" is liable for the proportion its insurance ($10,000) bears to the total insurance ($30,000) or one-third, that is, $1,000.

Where the policies issued by "A" and "B" are concurrent, that is to say, where the provisions of the policies are identical, the application of the principle is simple. But there are some cases where the policy provisions differ and it consequently becomes a difficult matter to determine the amount of the total insurance. The policies may differ because the properties covered are in different locations, because the descriptions of the insured articles vary, because the interests covered are not identical, or because one policy contains clauses or endorsements not on the other. This is a situation to be avoided by both the insured and the company because it results in delay in the payment of losses and frequently involves complicated law cases. The most frequent case of non-concurrency is where one policy is a specific policy covering one item, while another policy is a general policy covering many items, including the one covered by the specific policy. We will take a relatively simple case of this kind and apply to it a relatively simple rule, as an illustration of the difficulties of adjustment.

Let us suppose that an owner has a stock of goods consisting of the following.

| | *Value* |
|---|---|
| Furniture | $3,000 |
| Jewelry | 500 |
| Wearing apparel | 500 |
| Total | $4,000 |

The losses by fire on these articles are as follows:

| | *Loss* |
|---|---|
| Furniture | $1,000 |
| Jewelry | 500 |
| Wearing apparel | 500 |
| Total | $2,000 |

Company "G" had insured all these items under a general policy for $1,000 and company "S" had insured the furniture alone for $1,000.

Suppose the principle is adopted that the general policy applies to each of the specific items in the proportion that the

value of the item bears to the value of all the property insured. Then the insurance on the various items is as follows:—

| | *Co. "G"* | *Co. "S"* | *Total* |
|---|---|---|---|
| Furniture | 30/40 of $1,000 = $750 | $1,000 | $1,750 |
| Jewelry | 5/40 of 1,000 = 125 | 0 | 125 |
| Wearing Apparel | 5/40 of 1,000 = 125 | 0 | 125 |
| Total | $1,000 | $1,000 | $2,000 |

The loss on furniture was $1,000 and the total insurance was $1,750 of which company "G" insured $750 and company "S" $1,000. "G" is therefore liable for 75-175 of $1,000 loss or $428.57. "S" is liable for 100-175 of $1,000 or $571.43. The loss on the other items (jewelry and wearing apparel) was $1,000 and this was only covered by the general policy of $1,000 in company "G." But of that general policy, only $250 applied to these two items and this constitutes all that the insured can recover of his loss on these two items. The total loss is therefore $2,000, the total insurance $2,000, and he recovers $1,250.

Let us suppose that the lawyer for the insured proposes that the loss be settled on the basis that the general policy must float over all property and contribute on the basis or proportions of the respective losses on the specific items. The insurance on the various items is then as follows:—

| | *Co. "G"* | *Co. "S"* | *Total* |
|---|---|---|---|
| Furniture | 10/20 of $1,000 = $500 | $1,000 | $1,500 |
| Jewelry | 5/20 of 1,000 = 250 | 0 | 250 |
| Wearing Apparel | 5/20 of 1,000 = 250 | 0 | 250 |
| Total | $1,000 | $1,000 | $2,000 |

The loss on furniture was $1,000 and the total insurance by this method is $1,500, of which company "G" insured $500 and company "S" $1,000. "G" is therefore liable for one-third of the loss or $333, and "S" is liable for two-thirds of the loss or $667. The loss on jewelry and wearing apparel totaled $1,000, covered only by a general policy of $1,000 issued by "G" and of this only $500 can be used for jewelry and wearing apparel. The total loss is therefore $2,000, the total insurance is $2,000, and the insured recovers $1,500.

Either of the above bases of settlement might be suggested and the justice of neither is proved by the policy provision. In the above case, at least five other methods might have been suggested for the settlement of the loss and in actual practice many more difficult problems may be found. It is obvious, therefore, that two non-concurrent policies are to be avoided wherever possible. The courts have in general followed the principle of fully indemnifying the insured when the insurance was sufficient for that result.

# Part V

# MARINE INSURANCE

## Chapter XIX

# MARINE INSURANCE

**Nature of the contract.**—The marine insurance policy was originally designed to protect the holder against perils of the sea and of fire, but so extensive is the modern coverage that perils of the land as well are now included within the scope of the contract. Since the actions of the master and the rights of shippers are governed by maritime law, such law is in many respects impliedly a part of marine insurance contracts. Like fire insurance policies, the marine policy is issued to an insured and is a personal contract.

Unlike the fire insurance policy which consisted principally of the exceptions or cases where the underwriter was not liable, the underwriter stipulates in the marine policy the risks for which he *is* liable. As a result he has received more liberal treatment by the courts. The marine contract is designed to protect the insured against accidents only and does not indemnify for natural wear and tear and losses which are inevitable. In credit insurance the insured bears the "normal" loss; so in marine insurance he bears depreciation and losses which are not accidental.

**Factors essential to a valid contract.**—1. *Good faith* and fair dealing have always been strictly required by the courts in respect to contracts of marine insurance because, by the nature of the subject-matter the underwriter is not in a position to conduct an extensive investigation. The ship or cargo may be far removed from the place where the contract is made. The courts, for example, have held the insured as strictly bound by certain implied warranties designed to protect the underwriter.

2. An *insurable interest,* vested, contingent or expectant, is required. The doctrine of insurable interest is essentially the same in fire insurance and in marine insurance. The former has been fully discussed.

3. *Seaworthiness of the vessel.* It is an implied warranty, by which the insured is strictly bound, that the vessel is safe and in a condition to carry the cargo contemplated. With re-

spect to voyage policies on hull this warranty is interpreted literally but in cargo policies innocent shippers have been given some consideration, and in time policies on hull this warranty is often not involved since the vessel is out of the possession of the owner and beyond his power to inspect.

4. *Legality of the venture.* The object of the voyage must be of a character not prohibited by law. Thus, a policy on a vessel engaged in smuggling goods into the United States, in violation of the revenue laws, is void.

5. *The voyage must be prosecuted without deviation.* The vessel must proceed over the customary route and without unnecessary delay. Deviation by the master on his own responsibility, without orders from the owner or in violation of such orders, however, constitutes "barratry"—a peril against which the marine policy protects the insured. A deviation due to the necessity of saving human life, or of protecting the subject-matter insured, is held to be justifiable by a permission endorsed on the policy.

**Types of underwriters.**—Marine insurance, like fire insurance, is written by stock companies, mutuals, Lloyds associations and interinsurance associations. These have been described in a previous chapter and it is sufficient to notice here some minor variations.

1. *A distinctive American mutual.* Only one marine mutual of any consequence exists at present in the United States. The original capital was furnished by the ship-owning and trading organizers, whose promissory notes furnished a source of credit. These notes served as premium payments to cover risks, and when a sufficient amount was secured, the company was organized and gradually accumulated a surplus. This was retained as a guarantee for the payment of losses and in time was divided among the persons insured; but payment was at first deferred and the insured received only a redeemable scrip certificate. Such scrip could be sold by the recipient or retained until it was redeemed, redemption being in the order of issuance.

2. *Mutual insurance clubs.* These are mutual organizations in the form of assessment societies. The claim for a loss is a claim against the association, the members of which pay an entrance fee and frequently an initial premium. In the absence or insufficiency of initial premiums, the members are assessed for the payment of losses incurred during the

year. The contributions by members are usually either in proportion to the amounts for which they are insured or in proportion to the gross tonnage of their vessels. Some of these associations are designed to insure the ordinary marine risks on terms similar to the policies issued by stock companies, some are intended to insure freight particularly, some cover deductions made by stock companies in the adjustment of losses, some insure against loss of time and others are "protection and indemnity associations."[1] The latter cover damages recovered for destruction of life, for injuries to the crew covered by the Compensation Act of Great Britain, for loss of or damage to goods carried, for collision liabilities not covered by the ordinary policy, for the expense of raising wrecks and for expenses of quarantine. They have the customary advantages and disadvantages of assessment mutuals and are peculiar to European countries, never having become important here.

Different classes of policies.—The most important features in distinguishing classes of policies are (1) the interest of the insured, (2) the valuation of the subject-matter, (3) the term of the policy, (4) the description of the vessel or cargo, and (5) the scope of coverage. These we will consider in order.

1. *Interest of the insured.*—Policies in this respect may be classified as:

a. Vessel policies,[2] covering the vessel and equipment.

b. Cargo policies,[3] covering goods to be transported.

c. Freight policies, covering either the sum charged for transporting the cargo, the hire paid for a vessel or the increase in the value of goods added by transportation.

d. Policies made to cover profits, commissions, etc., usually include these values in the valuation of the cargo.

The above refers to policies supported by an insurable interest which is legally recognized, these being designated as "interest" policies; but policies may also be issued where the "interest is admitted." The latter are unenforceable at law and depend upon the honor of the parties, but are sometimes necessary to protect a prospective insurable interest not recognized by law.

[1] See Appendix LXIV.

[2] See Appendix LXIII.

[3] See Appendix LXII.

2. *The valuation of the subject matter.*—We have seen that "valued" policies, in which the total value of the subject-matter is agreed upon at the issuance of the policy, are infrequent in fire insurance. In marine insurance they are the common thing, due to the character of the business and to well-established custom. Policies may therefore be classified on the basis of valuation as:

a. Valued policies,[4] where the value of the subject-matter is specified in the policy. The values of vessel and machinery are often separately stated in these policies.

b. Open or unvalued policies, where no value is agreed upon and it must subsequently be ascertained and proved. The expression "open policy" has also been applied to floating policies and to a cargo form discussed later.

3. *The term of the policy.*—With reference to the duration of the policy, the contracts may be divided into two major groups as follows:

a. Time policies,[5] which cover for a specific period of time, regardless of the number of voyages made. Special varieties are: port policies covering a vessel for a definite period while in port, and construction policies covering vessels in process of building.

b. Voyage policies, which cover only a specific trip. This type of policy is better adapted to cargo than hull insurance.

4. *Description of the vessel or cargo.*—In this respect, policies may be classified as:

a. Floating policies, which cover cargo shipped on any vessel or vessels or upon any vessel of a particular line or group of lines.

b. Named policies, where only a particular vessel or cargo on a particular vessel is covered.

c. Fleet policies, covering a group of vessels designated by name.

d. Open cargo forms,[6] covering all declared shipments made within named geographical limits.

e. Blanket policies, which cover shipments within certain time and geographical limits, up to a stipulated maximum amount, on which the premium is paid.

f. Special types of policies covering tugs, yachts, fishing

[4] See Appendix LXIII.

[5] See Appendix LXIII.

[6] See Appendix LXII.

vessels, canal hulls, lake steamers, barges, river cargoes, live stock, lumber, etc.

5. *Scope of coverage.*—Policies may be grouped with respect to their coverage of:

a. The customary perils described later.

b. War risks, including hazards peculiar to a state of war.

c. Total loss only.

d. Special risks. It should be noted that the insured and the underwriter may by special agreement fix upon one or more stipulated perils against which protection is afforded or may introduce modifications of the underwriter's liability.[7]

Uses of these policies: 1. *Vessel, cargo and freight policies.*—Vessel and cargo policies require no description. The latter are primarily important from a premium income standpoint, an investigation of 72 American companies in 1920 showing that 43, or over one-half of the total, derived less than one-third of their premium income from hull business. Capital can be turned over much more rapidly in the cargo than in the hull business and it is in general more profitable.

Policies on freight and other interests require a brief explanation. A vessel-owner who is to receive his recompense for the service of transportation upon the delivery of the goods risks the loss of his freight if he fails, through some marine peril, to deliver the cargo. If, on the other hand, the shipper pays the freight in advance, without right of recovery, the value of the freight is incorporated in the goods and their loss will also involve the loss of the freight paid. Either the owner of the vessel or the shipper, as circumstances warrant, may therefore desire to insure the freight. A vessel operator may charter or rent a vessel for a voyage, let us say, the rental to be paid in advance and without right of recovery. This, then, is another form of freight money which, by the loss of the vessel, is also lost. By placing a sufficiently high valuation on his goods a cargo owner may insure the expected profit on the goods at destination. The arbitrary figure of 10 per cent is often used in estimating this. "Interest admitted" or "policy proof of interest" policies may be used to protect a contingent benefit, such as the prospective charter of a vessel for which no contract has as yet been definitely made; a mere expectation.

[7] See Appendices LXV to C, inclusive.

2. *Valued and open policies.*—Valued policies enable the underwriter and the insured to agree in advance on the value of the subject-matter and consequently to avoid the controversy and litigation which might otherwise arise when a loss occurs. The uncertainty of expenses and profits makes it difficult for the insured to know the real value of his goods at destination and it seems reasonable and safe to agree upon some value which is not excessive, inasmuch as the goods are out of the possession of the insured and the moral hazard consequently greatly reduced. The actual value of a vessel is constantly changing because of the freight market and trade conditions, and under any circumstances is difficult to compute. If, however, the value of the subject-matter insured cannot even be approximated, the insured or the underwriter may prefer to leave the settlement of this important question until a loss occurs.

3. *Time and voyage policies.* Time policies give protection for a stipulated period and therefore avoid the annoyance of constant attention to the termination of voyages and to the renewal of policies. On hulls they are therefore the common type. In the time policy the insured avoids the necessity of continually describing separate voyages, many of which are over similar routes. Under such policies the warranty of seaworthiness cannot be so strictly construed as under a voyage policy. Since cargoes are subject to sea risks for comparatively short periods, however, the voyage policy is frequently used. To tramp steamers and sailing vessels the voyage policy is particularly adapted, inasmuch as these do not move over fixed routes, and their travels may be more easily described by separate voyage policies.

4. *Special time policies.*—The port risks policy is a specific variety of time policy. A considerable period often elapses before a vessel sails; or, due to the freight market, a vessel may be voluntarily laid up in port for a short space of time, her operation being unprofitable. To pay the higher premium required for coverage of navigation risks would be a useless outlay and the owner consequently acquires a policy protecting the vessel "whilst at and or within the limits of the port of ——," with leave to dock, change docks, move about in tow within the prescribed limits or go on a slipway, gridiron or pontoons for refitting, etc. When the policy is cancelled, a portion of the premium is returnable. The builder's risk

policy is also a special time policy, protecting the builder and owner as their interests may appear, from the time of laying the keel until the delivery of the completed vessel. Separate insurances may be issued, one covering the period prior to the launching and the other the period subsequent to launching but prior to delivery. On large modern steamers these policies are of considerable size and the premium is based upon the maximum liability of the insurer in case of the total loss of the vessel before delivery. If the construction requires more than the time anticipated, the policy is renewed; if the vessel is completed ahead of time, the policy may be cancelled with the return of a portion of the premium. The policy protects against all the risks covered by the ordinary marine policy and in addition against fire, while under construction or at the dock, and against damage from collapse of supports, etc., and the risks of launching, including breakage of the ways. After launching, the hazards of trial trips and collisions, negligence, explosions, breakage and latent defects are covered. Such policies commonly contain a "protection and indemnity clause," found also in other hull policies, designed to cover the insured's liability for damage done to the persons and property of others.[8] This does not include the liability of the insured under a compensation act, hazards incident to a state of war, strikes, lockouts, labor disturbances, riots and commotions, earthquakes and delay. Partly due to the war, this type of insurance has not as yet reached large proportions among American companies, but is rapidly growing. Of 53 American companies, 12 received no premiums on this class of business, 32 derived from ½ of 1 per cent to 5 per cent of their total premiums therefrom, and 9 obtained over 5 per cent of their premiums from this source, including one company whose income of this character aggregated 34 per cent of its total premiums.

5. *Floating and named policies.*—Floating policies, applying to cargo shipped by any vessel or vessels, are applicable to known shipments on unknown vessels. Thus, an American importer may be aware that goods have been consigned to him from a particular source, but he may be unaware of the name of the vessel or even of the line on which such goods are being transported. When the vessel is known, the fact is

[8] See Appendix LXIV.

communicated to the underwriter and the policy transformed into a named policy.

6. *Fleet policies.*—A fleet policy is a convenience to a line owning a number of vessels, for they are by this means covered in a single policy. In addition, the insured may receive a more favorable rate than could be obtained on separate insurances, inasmuch as it is uniform for the entire insurance and based upon the average condition and character of the vessels. Exceptionally poor risks are thereby counterbalanced by better vessels. Indeed, vessels which would be uninsurable separately might be covered by this method, as the underwriter must take or reject the entire lot.

7. *Open cargo forms.*—The open cargo form is one of the most common types of policies. It is estimated that 90 per cent of the cargo coverage is of this kind.[9] The policy usually runs for an indefinite period of time and all shipments of the insured during this period are protected, provided he declares the same to the underwriter and pays a premium thereon. There is therefore a constant reporting of new risks to be covered and of terminations of risks upon cargoes which have arrived safely, a rate schedule attached to the policy serving as a guide to the rates which will be charged. In order to restrict the extent of risk assumed by the company, a maximum coverage on any one vessel is stipulated, and it is also provided that "the sound value at the port or place of destination outward is to be deemed not to exceed the purchasing price at the shipping port, and 10 per cent added thereto, exclusive of duty and freight." The open cargo form therefore practically provides insurance in advance upon any shipments in which the exporter or importer is interested. They will all be covered, whether shipped with or without his knowledge, provided prompt notification is given to the insurance company.

8. *Blanket policies.*—In the blanket policy the maximum amount of protection which will be required is estimated and this protection is purchased in a lump sum, the premium being based on this amount. The nature of the goods and the geographical area to be traversed are described, and all goods so designated are covered. As losses are paid the full amount of the policy must be reinstated by additional premium payments entailing additional cost to the insured, whereas the

[9] See Appendix LXII.

underwriter is assured of the full amount of business for the period named. Should the actual shipments exceed or fall short of the estimated amount, the excess or deficit is covered by an adjustment of the premium made at an agreed-upon rate.

9. *Ordinary and special hazards.*—It was at one time customary for marine policies to cover not only ordinary maritime risks but also special hazards incident to war and piracy. Later such special hazards were excluded from the ordinary policy and written as "war risk" insurance.[10] The latter gives protection against capture, seizure, detention, damage by capture at sea, arrests, restraints and condemnation, with an agreement by the insured that he will not abandon in case of blockade or capture until after condemnation.

In some cases the underwriter does not care to write a policy covering all the customary maritime losses, the majority of which are partial, and issues a policy protecting against total loss only, at a considerably reduced premium. Sometimes partial insurance against all losses is supplemented by an additional policy covering total loss only, thus giving the insured protection against great disasters at a very reasonable premium, and some protection against partial loss.

Analysis of the policy.—It will now be desirable to examine some of the principal clauses of the policy contract pertaining to the description of the subject-matter, the beginning and termination of the coverage, the perils protected against, double insurance and subrogation, leaving the subject of losses for separate consideration later.

1. *The description.*—We have already discussed the description of the insured's interest under the fire policy and many of the remarks there made are equally applicable to marine insurance. Unless both parties are certain of the trade usage and the legal decisions pertaining to such general terms as "cargo" and "goods," their use is dangerous because of their uncertain scope. Thus, refrigerated goods and live stock are well recognized as not comprehended by the above expressions and the status of other articles is extremely doubtful. This uncertainty may be easily avoided by a definite description of the goods. The description or name of the vessel is naturally an important part of the policy because of its influence upon the acceptance of the risk and upon the rate

[10] See Appendix LXV.

of premium. A mistake or change in the master is not now considered so important.

2. *Inception and termination of the coverage.*—In the case of a time policy on hull the risk clearly begins at a specified date and ends at a specified date, the vessel being covered while within any geographic or other restrictions contained in the policy. Various sailing warranties may be introduced in the policy by endorsement as, for instance, where a ship is warranted to confine its operation to the harbors of a given port, or not to operate in specified waters, such as the Arctic regions, or warranted not to ply the Great Lakes between December 2d and April 15th.[11] If the vessel is at sea on the date when the contract terminates an automatic extension of the insurance which protects the insured until the vessel reaches the port of destination is provided, at a *pro rata* monthly premium. In the case of a fleet policy the location of particular vessels does not matter, for it is to be expected that some will be at sea on the date of expiration.[12] Time policies are in general inapplicable to cargo risks, but a floating policy provides that goods shipped on and after a certain date are covered from the time they are loaded on board the vessel. The loading is, therefore, the important factor in the beginning of the risk.

In a voyage policy on hull the risk begins when the vessel breaks ground for the given voyage, if the insurance is "from" a port. If insured "at and from" a port, she is covered while at the port and making preparations for sailing. In both cases the risk terminates when the vessel has reached the port of destination and has been moored twenty-four hours in safety, both physical and political. A voyage policy on cargo applies from the time the goods are loaded on board the vessel until they are safely landed at destination. The principal question which arises here is as to whether the goods are covered when lighterage is necessary to ship or land the goods. The earlier view was that the risk of lighterage was not covered, but at present there seems to be a tendency to hold that if the use of lighters is necessary or customary, the risk is covered by the policy. In England, the Marine Insurance Act specifically excludes the lighterage risk. In order to render this point certain a clause assuming responsibility for the

[11] See Appendix XCVI.

[12] See Appendix LXIII.

lighterage risk or one disclaiming such liability is often endorsed on the policy.

While the marine policy was originally intended to cover sea-perils, the scope of the protection has been vastly extended in modern times by policy endorsements. An excellent illustration of this is the "warehouse to warehouse" clause,[13] under which the insurer assumes responsibility for losses from the time the goods leave the factory, store, or warehouse at the initial point of shipment until the same are delivered at store or warehouse at destination.

3. *The perils covered by the policy.*—The marine policy is intended to indemnify for losses resulting from unforeseen and accidental causes only. Thus, a collision with another vessel, a storm at sea, the striking upon a rock, stranding, damage of cargo by sea-water, are all unanticipated results of a venture. The policy does not cover losses which are natural and customary, such as the ordinary wear and tear of materials, natural decay through passage of time, damage from the inherent vice of the article or the ordinary leakage of liquid cargoes. The perils which the underwriter assumes[14] may be conveniently grouped as follows:

a. *Perils of the sea.*—This group does not include all perils which may occur on the sea but only such as are "of" the sea. Thus, seizure is a peril encountered on the sea but is not a peril of the sea. This group includes such perils as the danger of being driven ashore by heavy seas, of sinking as a result of striking upon a rock or sunken vessel, damage by lightning, stranding, collision with another vessel, springing a leak in bad weather and damage to cargo by salt-water. Missing vessels are presumed to have been destroyed by perils of the sea, but this is subject to rebuttal in time of war.

b. *Fire.*—Included in the peril of fire is also the danger of loss to vessel or cargo resulting from efforts to extinguish fire. Thus, goods may be damaged by water or by steam used for this purpose. It includes also consequential loss from this cause, such as damage caused by smoke or odor. Underwriters are not liable for damage to goods whose own condition or inherent vice caused the fire.

c. *Perils dependent upon the acts of those on board the vessel.*—Suppose, for example, that the dangerous position

[13] See Appendix LXXV.

[14] See the policies in Appendices LXII and LXIII.

of the vessel requires the master to sacrifice a portion of the cargo for the general safety. This is an act which is for the benefit of the owners of the vessel and of the cargo and, in general, of the insurers. The underwriter is consequently liable for losses so resulting. A long line of legal decisions has accurately defined acts of this character, as shown later. Another situation is found where the master of the vessel, instead of acting for the benefit of others, is acting in his own interest and against the interests of the owners of the vessel and of the cargo as, for example, where he deviates from the course for his own personal interests or sinks a vessel for revenge. This is a peril which is logically a subject for some form of insurance other than marine, being similar to the hazards encountered in corporate bonding, but it is ordinarily covered by the marine policy.

d. *Perils arising from the actions of persons not on board.* This group of perils was originally covered by every marine policy, was afterward excluded from coverage by endorsement, and is now covered by a second endorsement when desired, for an extra premium. In the main, it comprises perils peculiar to a state of war or piracy, including theft other than pilferage, capture by pirates or rovers, men of war or privateers, reprisals, restraints and detainments.

e. *"All other perils."*—This phrase is not so inclusive as it sounds, because the courts, following the rule of *ejusdem generis,* have held that it covers only perils similar in character to those previously enumerated. Thus, the firing upon a vessel by a war vessel of the same nationality in mistake, the throwing overboard of money to prevent capture, the damage to goods by water entering a discharge pipe which was forced below the surface by the weight of the cargo loaded, have all been held cases sufficiently similar to those enumerated to justify recovery. Certain types of explosions have been considered as outside this class, as is true also of bursting boilers and latent machinery defects.

It is not sufficient that one of the above perils shall have been instrumental in causing the loss to impose liability on the underwriter; the peril must have been the proximate cause of the loss. The proximate cause is usually the immediate as distinguished from the remote cause, provided such immediate cause is a predominating and not a minor one. Underwriters have frequently been held liable where, after

a captain or mate had been negligent, the subject-matter was damaged by accident or fire, even though the negligence contributed to the disaster. On the other hand, where the predominating cause has been gross negligence and subsequent contributory causes were insignificant in character, the underwriters have not been held responsible.

4. *Double insurance and subrogation.*—Where the same vessel or goods are insured by more than one underwriter, the liability of such underwriters is determined by the priority of the contracts. The prior policy is liable for any loss until it is exhausted and the subsequent policy is liable for the balance. The premium is returned on that portion of the subsequent insurance which is over-insurance.[15]

Upon the payment of a loss to an insured, as has been previously explained, the underwriter acquires all the rights of the insured pertaining to said loss. Furthermore, the insurance company would naturally be subrogated to any claim for negligence which the insured might have against a carrier. Carriers have attempted to counteract their liability by providing that any insurance recovered should inure to their benefit, this being followed by the introduction of a clause in the policy[16] to the effect that the policy would be void if any agreement that the carrier should receive the benefit of the insurance existed in the bill of lading or otherwise. Other clauses prevent the insured from prejudicing in any way the insurer's recovery by releasing or impairing rights against third parties, or assigning any interest or right.

Various Types of Losses.—1. *The incidence of the loss.*—For a better understanding of the sections which follow, it is necessary to insert here a classification of maritime losses which has no direct connection with insurance. It is based upon the manner in which the loss is borne by the various interests concerned. *General average* losses are those which are borne by all parties concerned in the venture, vessel, cargo and freight.[17] Thus, if, in time of peril, the master is compelled to damage his vessel for the general benefit, it is only just that all concerned should contribute to reimburse him for his voluntary sacrifice. But in order to maintain the justice of such contributions the courts have said that the loss must

[15] See policy in Appendix LXII.

[16] See Appendix LXII.

[17] The compensation for carrying goods.

be the result of a voluntary sacrifice, incurred in time of peril, for the benefit of all parties concerned, reasonable in character and by order of the master or person in command. The jettison of cargo, described in the section on perils, will be recognized as meeting the conditions prescribed; also, beaching a vessel, water damage in extinguishing a fire, damage to machinery through extraordinary efforts to float a stranded vessel, unusual expenses incurred at a port of refuge, and many other types of losses may fulfil the conditions.

The method of adjusting a general average loss is as follows. The ship-owner or his representative arranges for the adjustment of the loss and usually employs an experienced average adjuster for the purpose. The master of the vessel is required to keep the interests together until adequate security for any liability may be obtained. A general average bond and a marine insurance policy are usually sufficient, but in the absence of the latter a cash deposit may be required. After a survey of the damaged goods and a determination of the amount of loss have been made, the various interests are appraised to find a basis for the respective contributions. Let us take a simple illustration to see the significance of this basis. A vessel is valued, we will suppose, at $300,000, the cargo at $400,000 and the freight money at $40,000, and in the course of the voyage $7,400 of cargo is sacrificed for the general benefit under conditions which make it a general average loss. All the cargo, we will assume, is owned by one shipper. The total value of the venture is found to be:

| | |
|---|---|
| Vessel | $300,000 |
| Cargo | 400,000 |
| Freight | 40,000 |
| Total | $740,000 |

Each interest contributes to the general average loss in the proportion that the value of its interest bears to the value of all interests, giving the following result:

| | | |
|---|---|---|
| Vessel | 30/74ths of $7,400, or | $3,000 |
| Cargo | 40/74ths of 7,400, or | 4,000 |
| Freight | 4/74ths of 7,400, or | 400 |
| All interests | | $7,400 |

It will be noticed that the cargo-owner must contribute $4,000

as his share of the general average loss; therefore, he receives a net reimbursement of only $3,400, but he is as much a partner in any general average loss that may occur as any one else and must bear his share. If the persons concerned are insured they can recover for their contributions from the insurance company, provided the loss is due to a misfortune insured against; if they carry full insurance, they can each be reimbursed in full. If only partially insured, the English law permits them to recover only in the proportion that the insurance taken bears to the value of the interest. Thus, if the vessel-owner had insured his vessel for only one-half its value in the above case, he could have recovered only one-half of his contribution of $3,000, or $1,500. The American courts, however, have not followed this principle in some cases.

The second type of loss is called *particular average.* The burden of such a loss rests upon the particular interests which suffer. Such losses are different in character from general average losses, for they are not voluntary, nor incurred for the common benefit, but are the result of accident or negligence. As illustrations, damage to the vessel by fire, damage to the vessel by heavy seas, stranding or collision, loss of part of the cargo in unloading, impairment of the quality of cargo by sea-water, injury to cargo by fire, loss of freight through failure to deliver cargo, etc., may be cited. The settlement of particular average losses is described later in the sections on total and partial loss.

2. *Classification of losses by extent and character.*— Viewed from the standpoint of insurance, losses may be divided into total and partial, each of which may be subdivided according to the character of the loss. By a total loss we mean complete loss or destruction of the subject-matter of the policy. Thus, a shipper, Jones, may have on board a vessel a cargo of cotton goods valued at $20,000, which he has insured in Company X. On the same vessel, Smith may have shipped crockery, Brown, hardware, and Black, furniture. If the cotton goods have their value completely destroyed by a disaster insured against, Jones and Company X regard this as a total loss, even though the crockery, hardware and furniture are uninjured. Likewise, the vessel might be a total loss even though practically all the cargo were saved. A partial loss is any loss other than total.

a. *Total loss.*—Total loss may be divided into two groups, *actual total loss* and *constructive total loss.* Actual total loss is incurred when the insured loses the possession of his property, as where it is captured and condemned by an enemy; where the property ceases to exist, as in the case of a vessel which founders or a cargo which burns; or where the property ceases to exist as a thing of its kind, as where foodstuffs arrive in a putrid state or hides are found to be partially fermented. A constructive total loss is said to exist when the property is damaged to such an extent that the cost of repairs will equal or exceed the value of the property when repaired. This, however, is the English view. American courts have defined it as being a case where the cost of repairs is greater than 50 per cent of the value when repaired, a definition much more favorable to the insured.

In theory and in law, actual and constructive total losses must be sharply distinguished. In cases of constructive total loss the insured must give the underwriter notice of abandonment in order to claim a total loss. Abandonment means that the insured offers the insurance company what remains of his rights in and respecting the damaged property in return for the payment of a total loss. Notice of abandonment is the notice to the underwriter of the offer. No such principle exists in other forms of insurance, where the company always has the privilege of paying the amount of the damage or of repairing the property. The notice of abandonment must be definitely expressed without reservations but the underwriter has the privilege of accepting the abandonment, which puts the insured in the same position as if he had suffered an actual total loss, or the underwriter may reject the abandonment. In the latter case the insured may either sue the underwriter for a total loss settlement and leave the justification of the abandonment to be determined by the courts, or he may agree to settle as for a partial loss. If the underwriter accepts the abandonment he pays the full insured value—either the insurable value in the case of an open policy or the policy valuation in a valued policy—and is subrogated to all the rights of the insured.

It is desirable to refer briefly at this point to the applications of coinsurance in marine insurance. In fire insurance a coinsurance clause requiring insurance to the extent of 80 per cent of the value is quite common, and under such a clause

the insured becomes his own insurer to the extent that he insures for less than the required amount. The higher the requirement the lower the rate, however, for reasons which have been previously enumerated. In marine insurance, on the other hand, insurance to the extent of 100 per cent of the value is required, and if less is taken the company will pay a loss only in the proportion that the insurance taken bears to the amount required. Thus 90 per cent insurance means that the insured can recover no more than 90 per cent of any loss. The insertion of such a requirement in the marine policy is unnecessary either in the United States or England, for the principle is well established in law. It will be understood in the discussion hereafter, therefore, that the insured has insured his property for the full value and that if he has not, he can recover only on the above-mentioned basis.

b. *Partial losses.*—The great majority of losses do not fall in the preceding category; they are only partial in extent. A partial loss may be either a general average loss or a particular average loss; but that need not concern us here, being more important in maritime law than in marine insurance. We have thus far been referring to the results of disasters exclusively as "losses," but it is now advisable to distinguish two groups of results as (1) losses and (2) expenditures, for there are certain expenditures which the insured is able to recover from the underwriter. Such partial loss or expenditures may be incurred with respect to cargo, vessel or freight, and the different principles of settlement in these cases make separate discussions necessary.

c. *Partial loss of cargo.*—This may be manifested as a deterioration in quality or as a loss of part of the cargo. The two bases of the underwriter's liability for such losses are (1) the percentage of damage suffered and (2) the sum insured. To illustrate the significance of these bases, let us assume that a quantity of cotton is shipped and insured under a valued policy for $10,000, its full value. The cotton is damaged 20 per cent during the voyage; in addition, the market value of cotton has declined. If the cotton had arrived uninjured, it would have sold for only $8,000, due to the decline in market values; in its damaged condition it sells for only $6,400. It is by this comparison of sound and damaged values at destination, in fact, that the extent of damage is ascertained. It might seem that the extent of the partial loss could

be arrived at in this way: $10,000 was the value insured and the cargo is now worth only $6,400; therefore the insurance company is liable for $3,600, the difference. But this is making the insurance company responsible for the decline in market value, which is not a risk insured against. The correct method of settlement is as follows: The sound value at destination was $8,000 and the damaged value at destination $6,400; therefore the extent of the loss ocurring on the seas was $1,600, or a 20 per cent damage. Applying this percentage to the amount insured, or $10,000, we get $2,000 as the company's liability. A series of examples would serve to show that the method explained is the only one which eliminates the effects of fluctuations in market values. Furthermore, it has been supported by court decisions. In comparing the sound and damaged values at destination the gross values are to be taken, including freight, as otherwise the constant value of the freight would affect the amount recovered by the insured.

Where the loss is a total loss of part of the cargo, instead of a general deterioration in condition, the damage is usually more easily ascertained. For example, if 1,000 bales of cotton are insured for $50,000, and 100 are totally destroyed or must be sold short of destination, the loss is obviously 10 per cent of the amount insured.

It is essential at this point to consider the limitations placed upon the payment of partial losses by the insurance company. One of the most common is the memorandum clause[18] which provides that certain articles are insured against general average losses and total losses only. Certain other articles are covered only for partial losses equal to 20 per cent of the value of the articles or more. On still other articles, the underwriter is liable only for losses amounting to 7 and 10 per cent, respectively. The greater the susceptibility to damage, in general, the higher the percentage named. The clause also provides that profits are to be subject to the same percentum of partial loss as goods. Furthermore, the underwriter relieves himself of liability for goods shipped "on deck," and for loss to certain kinds of goods carried under deck, except by actual contact of sea water. Ordinary leakage of liquid cargoes is also exempted. It should be explained that the clause does not mean that the insured bears, say, 10

[18] See Appendix LXII.

per cent of every loss himself. For losses which do not reach 10 per cent of the value, it is true, the underwriter pays nothing; but on losses which reach or exceed the percentage named the underwriter pays the full loss. The percentage is therefore simply an arbitrary limit marking off the minor from the important losses. The clause has two purposes or results. First, it enables a much lower premium to be quoted, because the multitude of small losses which aggregate a considerable sum are eliminated from consideration on the theory that they can be covered by an addition to the selling price of the goods, while premiums are lower than they would otherwise be. Second, it saves the calculation of a large number of rates on separate articles, inasmuch as articles can be put on a common basis by variations in the memorandum percentages.

A policy may contain a "free of particular average" clause,[19] which specifies that the insurer is not liable for any particular average losses, the insurance except under certain conditions being against total and general average losses only. Two types of clauses are in use, being distinguished as "F. P. A. A. C." (American conditions) and "F. P. A. E. C." (English conditions). The latter reads "free of particular average *unless* the vessel or craft be stranded, sunk, burned or in a collision." The courts have held that the conditions of the clause are satisfied if a stranding, sinking, burning or collision takes place at any time during the voyage, whether it be the cause of the loss in question or not. The American clause reads "free of particular average unless *caused by* stranding, sinking, burning or collision with another vessel," which wording requires that the stranding, etc., be the cause of the loss in question.

Various modifications of the memorandum and average clauses may be introduced in order to fit the conditions of the particular case.

d. *Partial loss of vessel.*—A vessel is not ordinarily bought to be sold again and the method of ascertaining cargo losses would be generally inapplicable for losses on hull. This is the more evident when we consider the size of the article, the fluctuations in its value and the difficulty of determining a fair market price. The ordinary procedure, therefore, is for the owners to have the necessary repairs made

[19] See Appendix XCV.

and the underwriters pay the cost thereof, less any improvement to the owner's property resulting therefrom.

It is difficult to estimate the advantage to the vessel-owner of obtaining new parts in place of old and in the days of wooden vessels this was arbitrarily taken as one-third of the repairs. This was unjust to new vessels, however, and the injustice became increasingly manifest when metal vessels supplanted wooden. Modifications of this principle have therefore been introduced, ranging all the way from the elimination of the one-third deduction down to a sliding scale of deductions varying with the character of the repairs and the age of the vessel.

The settlement of partial losses is affected also by the use of average clauses on hull policies and clauses providing for separate valuations of hull, fittings and machinery. Average is frequently made payable on each valuation, separately or on the whole, whether the average be particular or general. If the percentage named be 3 per cent, therefore, any damage to a vessel will be compensated for which amounts to 3 per cent of an individual valuation or any damage to 3 per cent of the total valuation. Policies are also issued which protect against total loss only. A deductible average clause makes the owner a self-insurer for a definite sum on every loss. On all steam vessels a clause is commonly used, providing that the underwriter assumes liability for damage to the hull or machinery resulting from the negligence of the master or crew, explosions, breakage of shafts or latent defect of machinery.[20] Many injuries to machinery were not, according to the courts, included in the ordinary perils covered by the policy, and this clause gives the insured the benefit of such coverage.

Instead of the owner repairing the vessel, however, he may keep the vessel without repairs or he may sell it before repairs are made. In the former case, the amount of damage must be ascertained by a survey or estimate. If the vessel is sold unrepaired the purchase price is supposed to measure the extent of the damage and the insured is entitled to the insured value minus the amount received from the sale. This latter principle does not meet with universal approval, since elements are introduced which are foreign to the insurance contract.

[20] See Appendix LXXXIX.

e. *Partial loss of freight.*—Freight, profits, commissions, etc., are all incorporated in the vessel or cargo and it is difficult to conceive of their loss except by damage to, or destruction of, the tangible property in which they are merged. In case of partial loss, the measure of indemnity is that proportion of the policy valuation or insurable value which the freight lost by the insured is to the whole freight at the insured's risk. In the very rare cases of unvalued policies on freight the custom has been to adjust losses on the basis of the gross, and not the net, freight. The latter is difficult to arrive at because it is decreasing as the voyage proceeds as a result of the increasing expenditures incurred.

f. *Expenditures.*—Not only are actual losses covered by the policy, but also certain expenditures. We have previously referred to certain general average losses resulting from voluntary sacrifices. Such sacrifices may result not only in immediate loss but in the necessary expenditure of funds to put the owner in the position which he previously enjoyed, or in expenditures necessary to attain the desired results. For example, in attempting to float a vessel it may be necessary to discharge cargo, fuel and stores, to store the same and later to reload. In case of damage to the vessel it may be necessary for the master to put in at a "port of refuge" and in addition to the cost of repairs, to spend money for the wages and maintenance of the crew, port charges, pilotage, discharging and reloading of cargo, and for the expenses of leaving the port. Such incidental and "port of refuge" expenses are called "general average expenditures" and form part of the general average "loss." They must, of course, be expenditures directed toward the same end as the voluntary sacrifice and not unnecessary expenditures for the benefit of some particular interest.

The policy also contains a so-called "sue and labor clause."[21] According to this it is necessary for the insured and his representatives to "sue, labor and travel for, in and about the defence, safeguard and recovery of the said goods and merchandises," in order to limit or reduce the loss incurred. Inasmuch as the insured's efforts are for the benefit of the underwriter the latter agrees that anything the insured may do in this connection shall not in any way prejudice his rights respecting the insurance, and that the underwriter will reim-

[21] See Appendix LXIII.

burse the insured for any expenditures incurred in this effort, in proportion as he is insured. Such expenditures are termed "sue and labor charges" and it is important to note that (1) unlike general average expenditures, they must be for the benefit of the particular property covered by the policy, and (2) that they must be expended to avert some peril which is covered by the policy.

It is a maritime custom that any person who rescues property on the sea from damage or destruction is entitled to a reward from its owner. If the salvor and the owner are unable to agree upon a suitable reward the amount thereof is fixed by an admiralty court. The salvage of a vessel or cargo is necessarily an act which benefits the underwriter and the reward or "salvage" paid is an expenditure for his benefit. As sue and labor charges are expenditures by the owner to save property for the underwriter, so salvage is payment by the owner to another for saving property for the underwriter; and for salvage expenditures, like sue and labor charges, the underwriter is responsible.

We referred above to the loss resulting from a collision of vessels. A legal liability may also arise from this event. Let us suppose that vessel "A," valued at $100,000, collides with vessel "B," valued at $200,000 and, as a result, vessel "A" is injured to the extent of $20,000 and vessel "B" to the extent of $10,000. If vessel "A" is entirely responsible for the accident the owner of vessel "B" may recover damages from its owner equal to the damage "B" has sustained. Such legal liability is not one of the ordinary marine perils against which the policy protects, although the damage suffered by "A's" vessel is covered by the policy issued by "A's" underwriter. To put it in another way, "A's" policy protects him against damage suffered but not against legal liability for damage done. It is customary to add a clause to the policy, however, protecting against such legal liability.[22] The underwriters under such a clause agree that (1) they will be responsible for such legal liabilities, (2) they will pay the expense of contesting the claim, if a contest is desirable, and (3) where both vessels are responsible for the accident, the respective legal liabilities shall be settled on the basis of cross-liabilities. To illustrate the latter agreement let us suppose that the two vessels are equally responsible for the accident, with conse-

[22] See Appendix LXIII.

quent equal legal liability. The underwriters pay the damages sustained and assume the rights of the insured parties. Underwriter "A" pays "A" $20,000 and assumes "A's" rights against "B," and underwriter "B" pays "B" $10,000 and assumes "B's" rights against "A." Vessel "A" was responsible for one-half of the damage to "B" or one-half of $10,000. Underwriter "A" is therefore responsible to underwriter "B" for $5,000. Vessel "B" was responsible for one-half of the damage to "A" or one-half of $20,000; underwriter "B" is therefore responsible to underwriter "A" for $10,000. "Crossing" these liabilities or setting one off against the other, underwriter "B" is responsible to underwriter "A" for the net sum of $5,000. There is, therefore, another expenditure for which marine underwriters are liable under the collision clause, that is, the expenditure necessary to satisfy a legal liability.

Marine insurance rates.—Although the factors which affect marine insurance rates seldom operate separately but usually modify and exaggerate others by association, it is convenient for purposes of study to divide them, as far as possible, into groups. We will consider, therefore, these factors in their relation to the following topics: the subjects of insurance, the insured, the nature of the trade involved, the results revealed by statistics, the various phases of competition, the policy conditions and finally, the extent to which judgment is a factor.

The subjects of insurance.—1. *The type of vessel.*—As the means of transportation, the vessel must necessarily occupy an important place in the making of rates. Size, type, adaptability to the trade, motive power, material and structural strength are always given consideration. It is evident that wooden and steel vessels must differ considerably in hazard, that large vessels are less subject to certain perils and more subject to others and that, in strength, vessels will vary as much as individuals; but space will not permit of a discussion in detail of various types of vessels and their uses.[23] To some extent the underwriter will be guided by the results which are arrived at by prominent classification societies formed for the purpose of testing and surveying vessels and reporting upon their strength and condition as, for example, Lloyds'

[23] See Robert Riegel, "Merchant Vessels," D. Appleton & Co., N. Y. 1921.

Register and the Register of the American Bureau.[24] These are especially valuable when risks are offered which cannot be personally inspected.

2. *The class of commodity.*—In both hull and cargo insurance the cargo is an important consideration. Innumerable conditions must necessarily be taken into consideration, such as the processes to which the commodity has been subjected, its susceptibility to odor, moisture, weather conditions, etc., the method of packing, inherent vice and necessity for proper loading. For example, cocoa and coffee beans may be easily affected by moisture, grain affords problems of loading, fiber products are subject to spontaneous combustion, hides deteriorate rapidly, and so on *ad infinitum.*

The insured:—1. *The personal factor.*—Underwriters insist that they insure persons rather than property, in the sense that the rate must vary with the individual. As between two individuals engaged in the same trade on the same route and using practically identical vessels, one individual account will show an underwriting profit while another is a loss. Due to carelessness or incompetence one shipper is constantly presenting claims which occur but rarely in the other case. Likewise, of two vessel-owners in the same trade with similar ships, one devotes considerably more money to maintenance and organization and exercises a more careful supervision, with a resultant saving in losses. Naturally, also, an underwriter is more willing to make a reduction in the case of an account which he has carried profitably for many years than he would be for a new customer whose business may or may not yield a profit. In addition, a moral hazard may have to be taken into consideration. Some shippers persist in making unfair claims for losses, others do not furnish the information necessary to make a fair estimate of hazard, and at the extreme are those who practice positive deception and fraud.

2. *Brokers' accounts.*—As the underwriter relies to some extent upon his past experience with shippers, so also must he place some dependency upon his past experience with brokers. Accounts with some brokers will show far less benefit to the underwriter than others and there will naturally be some discrimination against the business offered by them.

3. *Nationality.*—Experience has shown that hazards of navigation vary with the nationality of the vessel and the crew,

[24] *Ibid,* chap. 13.

some nations seeming to produce, on the average, persons who are far better fitted to engage in ocean trade and vessel operation than others. The standard of business honor will also vary greatly, thus affecting the decision on the acceptance of risks and the adjustment of losses.

Nature of the trade:—1. *Natural forces and topography.*—Experience as well as deductive reasoning shows that certain geographic regions and trade routes offer hazards which are non-existent or modified in others. Thus, off the British Isles and Newfoundland, fogs are prevalent; the northern waters contain floating ice; in the Baltic Sea, the nights are longer; river harbors frequently have bars or shallows; the typhoons of the Pacific and the monsoons of the Indian Ocean are proverbial; many regions are far better equipped with aids to navigation than others, and the conditions of ports vary as greatly as those of vessels, cargoes and individuals. As a result, no matter what the vessel or cargo, the trade route and geographic region will exert an influence on the rate.

2. *Seasons.*—The seasons of the year and the business "seasons" both affect the rate. The influence of winter is too obvious to require more than mention; the cotton movement in the South tends to a congestion at shipping ports and this increases the danger from fire and bad weather. Seasonal demands for tonnage will attract vessels to trades for which they are little suited. Temperature may be an important element in shipments of oil and grease.

3. *Trade customs.*—The underwriter, in order to form satisfactory judgments of risks offered, must be acquainted with the world's commerce. Thus, cotton is shipped from Egypt in small bales well wrapped while American exports of this commodity are frequently inadequately protected and often poorly baled. At some ports cargoes are unloaded directly on the wharf or pier, while at others lighterage is used. Rubber may be shipped from Brazil unpacked; the same product comes from Eastern countries carefully packed.

Statistical experience.—Many of the elements in a marine rate cannot be measured in figures but in some cases the experience acquired by years of operation is sufficiently broad to afford some basis for judgment. Many companies, therefore, maintain statistical departments designed to furnish material which the underwriter may use to assist his general knowledge. With respect to this information the marine insurance busi-

ness is in about the stage which fire insurance apparently finds it so difficult to pass through, a stage in which the information is regarded as a trade secret of very great value. There is, in other words, very little exchange of information between underwriters, in spite of the mutual benefit which such cooperation, intelligently carried out, would give. As expressed by a practical insurance man, "that is the unfortunate feature of the marine insurance business to-day. There is no conference between the companies on the very important lines of business. It is the one disability and perhaps the one vice of the marine insurance business—that we, each one of us, keep our own records and keep our own counsel and underwrite along our own individual lines."

Competition.—1. *An international market.*—There is practically no cooperation between the various marine insurance markets of the world in regard to rates, and as a result of the cable facilities which exist and the intangible character of the commodity dealt in, the insurance may be readily "exported." This means that the buyer may obtain his insurance abroad if he finds a sufficient inducement, and that the American underwriter must meet the competition of foreign underwriters. An investigation has shown that perhaps 20 per cent of the premiums on American business has gone to unadmitted companies and foreign underwriters, while the proportion in the hull insurance field was as high as 50 per cent. The broker, ordinarily anxious to do well for his client, seeks the best market.

2. *Brokers' accounts.*—Since brokers occasionally follow the practice of combining risks and offering them as a whole, insurance companies are sometimes inclined, because of competition, to give better terms than could have been obtained on the individual units in the groups.

3. *Rate agreements.*—Unlike fire insurance, rate agreements in marine insurance have been confined to limited classes of business. This is partially accomplished through the medium of underwriters' associations, which promulgate rates which are purely advisory in character and which the companies are free to use or not as found desirable. In practice, of course, such rates are quite generally adopted. The organization of such associations, eight of which recommend rates, is much more informal than the organization of fire underwriters' associations. A second method by which uni-

formity in rates on certain commodities is arrived at is through reinsurance exchanges, where companies exchange business which is written at agreed-upon rates. As instances, there may be cited the "Cotton Reinsurance Agreement," the "Cotton Fire and Marine Underwriters," the "Burlap Agreement," "Joint Grain Certificates," "Lumber Reinsurance Association," "Inland River Agreement," and "New Orleans River Association." While the underwriters' associations are principally concerned with rates on hulls, the agreements relate primarily to cargo risks.

Policy conditions.—It has previously been explained that various arrangements may be made to adapt the insurance to the vessel or commodities to be covered and that the ordinary provisions of the policy are generally modified by special agreements and clauses. The underwriter's liability is thereby extended or reduced and naturally the rate varies in accordance with this fact. Obviously the hazard is increased considerably by the addition of a "warehouse to warehouse clause," and greatly reduced by restricting coverage to total losses only. It is impossible and unnecessary to enumerate all the possible variations and their effects.[25]

Underwriting judgment.—Finally, when we come to the end of the specific factors which have been enumerated there remains an interminable list of unclassified, unanalyzed and untabulated considerations to which only an underwriter's experience can enable him to give proper weight. The ability to evaluate properly these considerations and to apply them to specific cases is commonly called "underwriting judgment." Indescribable, yet clearly recognized, it has enabled some individuals to obtain positions of preëminence in this respect, so that testimony shows that their acceptance of a risk is sufficient to induce others to write on the same risk. This factor is present to some extent in all forms of insurance rate-making. It would be possible to construct a list in which the various forms of insurance were arranged in order as they depended upon underwriting judgment as contrasted with statistics. Among those at the head of the list would appear marine insurance and at the bottom of the list life insurance. Underwriting judgment is especially important in the marine field because the event insured is uncertain, the hazards are many and peculiarly difficult to measure in figures and coöperation between underwriters is limited.

[25] See appendices LXIV to C.

# Part VI

# OTHER FORMS OF CASUALTY INSURANCE

## Chapter XX

# AUTOMOBILE INSURANCE

**Types of automobile coverage and types of companies.**—In order to obtain complete protection the owner of an automobile must have five types of policies. For convenience in discussion, however, these may be divided into three groups; the liability and property damage forms, the collision form, and the fire and theft forms. The automobile insurance business is distributed between two types of companies, the casualty companies and the fire companies. In very few States is it possible to obtain complete protection in a single policy or company as the laws have been framed on the assumption that casualty risks belong to casualty companies and fire risks to fire companies. Liability insurance is written entirely by casualty companies, fire and theft insurance entirely by fire companies, and property damage and collision insurance is divided, casualty companies receiving probably the bulk of property damage and fire companies the greater part of collision insurance. The demand for complete coverage in a single policy is not great and such as it is has been largely met by cooperative companies operating under substantially similar management, and issuing combination policies.

**Liability insurance policies.**[1]—Liability insurance is insurance against legal liability for damages because of bodily injury to others arising out of the ownership, maintenance or use of an automobile. This policy also promises that the company will defend the insured in suits, pay legal costs, make investigations and settlements of claims and pay for immediate surgical relief to the injured. The policy is designed to cover the ordinary use of an automobile only and, therefore, contain limitations to its scope. It applies in the United States and Canada only, unless the territorial scope is extended by an endorsement paid for by an additional premium. In regard to use, the insured may not employ a private passenger car in carrying passengers for hire nor is the car covered while towing a trailer, or while

[1] See Appendix CII.

engaged in a race or speed contest. It must be operated by a person who is over the legal age limit. The company's liability is also restricted in amount, the standard limits being $5,000 for injuries to any one person in one accident, and $10,000 for injuries to more than one person in one accident, subject to the $5,000 per person limitation. The standard limits may be extended by the payment of an extra premium.

**Property-damage policies.**[2]—Property-damage insurance protects against injury or destruction of the property of others, including loss of use, except when in charge of the person assured or his employees, or when carried in cars covered by the policy. Such injury must, of course, result from an accident arising out of the ownership, maintenance or use of the cars covered by the policy. Loss by fire from any cause is not covered. Practically the same limitations apply to the property-damage policy as to the liability policy. The liability of the insurer is limited to the actual cash value of the property destroyed or injured, up to the ordinary limit of $1,000, which may be extended by an additional premium. It is to be noted that a property damage policy covers loss of use. Thus, the insured may not only be legally liable to another for damaging his property but also for the pecuniary loss resulting from the fact that the injured party is deprived of the use of the damaged property while it is undergoing repairs. The property-damage policy is never separate but is written concurrently with public liability or fire coverage by a combination policy or by endorsement.

**Liability and property damage rates.**[2a]

A. *Private passenger cars.*—The rate-making system may be divided into the various factors which influence the making of a rate.[3] Rates for all forms of automobile insurance are unstable and it is doubtful how long the figures used below as illustrations will continue in force. The system of arriving at premiums is discussed under the following heads:

1. *Territory.*—The United States has been divided into eight territories, numbered from one to eight, and ranging from the most hazardous communities to rural sections. Thus, territory No. 1 is New York City, where injuries to both persons and property are most frequent and severe. Using as an illustration a medium-priced car, costing $1,495, the rates in

[2] See Appendix CV.

[2a] Rates show relatively frequent changes. Appendices CX and CXI show recent rates.

[3] See rate forms, Appendices CX, CXI and CXII.

this territory are found to be $103 for public liability and $28.50 for property damage. In territory No. 2, including the suburbs of New York City, these rates decline to $57.50 and $16 respectively; in Philadelphia (third-class territory), they are reduced to $48 and $15 respectively; and in strictly rural and sparsely settled localities (territory No. 8) they are as low as $19 for public liability and $7 for property damage insurance.[4] For the sake of illustration a particular car has been used, but it is understood that other makes have different rates, since the list price of the car is a factor.

The territorial grouping described is based principally upon two factors: (1) The population density of the particular territories and (2) the past experience as reflected by compiled statistics. In collecting statistics of experience it has not always been possible to classify the data in as detailed a manner as desirable. In localities where there are comparatively few cars and few losses it has been found necessary to proceed on the assumption that what is true of automobiles in the aggregate is true of particular kinds of cars. This of course is not always strictly accurate, but the difficulty is partly obviated by the constantly increasing amount of statistics. Furthermore, except as reflected in the statistics, the territorial grouping cannot take into account such factors as road conditions, topography, character of population and the local laws affecting accidents. Likewise, the drawing of lines delimiting territorial zones necessarily must discriminate illogically between two communities lying close to and on opposite sides of the line.

2. *Type of car.*—Since it is apparent that different cars will present varying degrees of hazards, it has been found necessary to create four classes of automobiles. The "private passenger" car is one used only for personal and business calls. "Public automobiles" consist of "livery" vehicles rented by the hour and day and "other than livery" vehicles, including taxicabs, etc. "Commercial" vehicles include principally cars used for delivery purposes and trucks. "Manufacturers' and dealers' cars" are those in the possession of manufacturers and dealers for demonstrating purposes. Separate rates are made for each of these classes of cars. Thus, while a Buick in territory No. 1 might cost $103 for liability insurance and $28.50 for property damage insurance, a livery vehicle would cost $270 and $50 respectively, a taxicab $480 and $120 respectively, and a coal

[4] Rates are given in this order hereafter where not otherwise specified.

dealer's heavy wagon $340 and $120 respectively. Manufacturers' and dealers' cars are usually rated on a different basis. These rates for different kinds of cars are based upon the varying ratios of losses to insurance as shown by the statistics compiled.

3. *Motive power.*—Since the electric car and the motorcycle present smaller degrees of hazard they are written at a reduction from the premiums charged for gasoline cars. Using as an illustration the Buick previously referred to in New York territory the rates would be $103 for liability insurance and $28.50 for property damage insurance, while electric cars and motorcycles would have a liability rate of only $82.50 and a property damage rate of $6.00. It is to be noted that we are here using a private pleasure car of a particular make in a given territory as an illustration. Similar allowances are made for electricity as motive power in public, commercial, manufacturers' and dealers' cars.

4. *List price.*[5]—Under the previous rating system, various makes of cars were distinguished principally upon the basis of horse-power. It was found, however, that this resulted in many criticisms. It was argued that the legal limitation of the speed of a car made the potential horse-power of minor consideration, that higher-powered cars were better operated and that the indicated horse-power as obtained by a formula was frequently inaccurate, resulting in absurd discrepancies between well-known cars. As a result the list price has been substituted as a basis and cars divided into four groups partly on the basis of list price and partly on the basis of experience. These four groups in New York territory have rates as follows:

| *Group* | *Liability Rate* | *Property Damage Rate* |
|---|---|---|
| W | $88.00 | $24.00 |
| X | 103.00 | 28.50 |
| Y | 119.00 | 33.00 |
| Z | 134.00 | 37.00 |

5. *Use of the automobile.*—The manual rates above referred to apply to private passenger cars used for private use and business calls. In territories Nos. 1 to 6, if the insured is willing to omit the business calls and restrict the car to private

[5] See list of automobiles, Appendix CXII.

use, 8 per cent reduction in liability and property damage rates is given.[5a]

6. *Driver of the automobile.*—The policy at the rates above quoted contains an omnibus coverage provision allowing the car to be driven by any person having the insured's permission. If, however, the insured warrants that the car will be driven only by the owner, 20 per cent reduction in liability and property damage rates is allowed.[5a]

7. *Limits.*—The standard limitations for liability insurance are $5,000 and $10,000. These rates, however, may be varied to suit the needs of the insured and higher limits may be obtained by the payment of an extra premium. Thus, limits of $10,000 and $20,000 may be obtained at 120 per cent of the manual rate. The usual property damage limit is $1,000 but this may be extended and a $5,000 limit, for example, may be obtained for 130 per cent of the manual rate.

8. *Persons covered.*—The coverage of the liability policy extends only to the public; damages payable to injured workmen are not recoverable. In States where this is important, employer's liability protection may be obtained by the payment of an extra premium.

9. *Foreign coverage.*—If a tourist desires to obtain a policy applying outside of the United States and Canada, he may obtain foreign liability, property damage, and collision coverage for an extra premium.

B. *Public automobiles.*—These cars are divided into two groups, "livery" vehicles and "other than livery" vehicles, the former group including principally cars occasionally rented; the second group, omnibuses, taxicabs and sight-seeing cars. The same territorial divisions apply and the rates upon livery vehicles range from $100 and $20 respectively in the lowest territory, to $270 and $50 in the highest territory. Beyond this no distinction is made between livery vehicles. Other than livery vehicles are also influenced by the place of customary use, the rates upon a hotel omnibus ranging from $200 and $35 respectively in the lowest territory to $400 and $70 in the highest. These public automobiles other than livery vehicles are further distinguished with reference to their use and size, a taxicab in first-class territory costing $480 and $120 respectively, a public automobile seating not more than twelve persons $480 and $70,

[5a] Eight per cent reduction rates are now described as "8% restricted coverage" and 20% reduction rates as "20% restricted coverage" in contrast with "basic coverage."

and a public automobile seating over thirty persons $840 and $125 for liability and property damage insurance. Employer's liability protection upon these forms of cars costs $5.

C. *Commercial cars.*—The same territorial grouping is applied to commercial cars. Thus, rates on a five-ton Mack truck used as a baggage car range from $78 and $40 in the lowest territory to $415 and $150 in the highest. Motorcycles cost $90 and $32 in first-class territory and in third-class territory $55 and $22 for liability and property damage, respectively. Gasoline commercial cars are also divided according to their use and size. Thus, an ambulance costs more than a coal dealer's wagon and the latter costs more than a water company's wagon. For the purpose of distinguishing between the various hazards due to character of use the cars are divided into four groups known as classes 1, 2, 3, and 4. Within these groups, cars are sub-divided into three classes—heavy, medium and light —on the basis of the load capacity. In first-class territory rates for the coal dealer's vehicle for liability insurance would be $340 on a heavy car, $320 on a medium car, and $290 on a light car, while the property damage rates are $120, $112 and $100, respectively. Electric cars are written at a 10 per cent reduction from the preceding rates. It is very important to notice, however, that where five or more cars are insured with the same company, it is possible to obtain rates on a pay-roll basis, a system which is explained under the next subdivision.

D. *Manufacturers' and dealers' cars.*—These cars, which are principally used for demonstrating purposes, may be written on any one of three bases, "named chauffeur," "specified car," or "garage pay-roll." On the named chauffeur basis, the premium paid by the dealer depends upon the number of chauffeurs specified in the policy, it being assumed that this approximately measures the aggregate hazard of his business. In a third-class territory the rates are $200 and $70 for liability and property damage insurance, respectively. On the specified car basis, the dealer lists the cars which are to be covered and the same rates apply to the cars as apply to the chauffeur. On the pay-roll basis it is similarly assumed that the wages paid are an approximate index of the aggregate hazard of the manufacturer's or dealer's business, and rates are quoted per $100 of annual pay-roll. The liability and property damage for the first $10,000 of pay-roll are $3.75 and $1.25, respectively and on the pay-roll above that figure, $3.00 and $1.00, respectively.

In the same territory the dealer could obtain protection against "inside exposure," which covers only the hazard within the walls and on the adjacent drive-ways, at 50 cents for liability and the same figure for property damage protection.

**Collision insurance policy.**[6]—Collision insurance protects against loss or damage sustained by collision of vehicles with a moving or stationary object. It applies to injuries suffered by the insured's car, and is sometimes called a "damage sustained" policy. The measure of this loss is the actual intrinsic value of the property at the time of the loss or the cost or repair or replacement. The policy does not cover losses by fire, or loss or damage to tires, unless caused by an accident which involves other loss or damage to the insured's automobile. The most liberal policy form provides for the payment of cash value, repairs, or replacement cost in full, and is known as full coverage. The following illustrations are based upon the full coverage policy.

**Collision insurance rates:**

A. *Private passenger cars.*

1. *Territory.*—The country is divided into eight territories as previously described, the rates in these territories on a new Class A car for full coverage ranging from $55 to $179.

2. *List price.*—Cars are further classified with reference to list price, twenty classes lettered from A to U having been created. Using New York territory as an illustration, a Class A car with a list price of $550 costs $179, a Class B car at $650 list price costs $205, and a Class U car costs $395. The cost of repairs on the higher-priced cars is ordinarily greater. $650 list price costs $205, and a Class U car costs $395.

3. *Extent of coverage.*—The above rates apply to the full coverage policy. If the insured is willing to bear the first $50 of any loss himself and consequently to accept a $50 deductible average clause, the rates named above are decreased to $46, $56 and $237, respectively. If he is willing to pay the first $100 of any loss himself under a $100 deductible average policy, these rates become $24, $25 and $171, respectively.

4. *Age of car.*—Rates named above are rates quoted for new cars. As a car grows older and the cost of repairs and extent of possible damage decreases, the rates are reduced; thus, on a car between six and eighteen months old, the rates named above will be considerably reduced. Similar reductions are made for second-hand cars in use from six to twelve months since the

[6] See Appendix CIV.

date of original purchase, and for second-hand cars in use more than twelve months in the hands of the present owner.

5. *Motive Power.*—Electric cars are written at 10 per cent discount.

B. *Commercial cars.*—A similar territorial division is made for cars in the commercial class. Rates in the various territories depend upon the list price of the chassis plus the list price of the equipment; thus, a truck at $1,650, with a body cab and starter costing $735, would have a rate of $280 in a first-class territory. The same truck, with equipment costing $850, would cost $294. This is the rate for full coverage. For $50 deductible the cost of the latter is $150 and for $100 deductible the cost is $75. Electric cars receive a 10 per cent reduction.

C. *Public and livery vehicles.*—Livery vehicles are written at 150 per cent of the private passenger car rate and other than livery vehicles are written at 200 per cent of the private passenger car rate, or at 200 per cent of the commercial car rate if of the bus or commercial type.

D. *Manufacturers' and dealers' cars.*—Individual cars are written at 125 per cent of the private passenger car rate but a blanket policy covering all the cars owned by a manufacturer or dealer during the year is written at a discount. Thus, for less than 100 new cars, 40 per cent of the private passenger or commercial car rates, for from 100 to 250 cars, 35 per cent of these rates and for 250 cars or over, 30 per cent of these rates. On used cars the original private rates apply without discount.

**Fire insurance policy.**[7]—A fire policy is designed to protect the insured against damage to his automobile by fire or transportation perils. The various provisions of the policy are so similar to the provisions of a policy on a building or its contents that it is unnecessary to repeat the analysis made in the Fire Insurance Section. One distinction may, however, be noted. Two forms of policy are written, the non-valued and the valued forms, the former resembling the fire insurance policy in that the total value of the property is left to be determined at the time of the loss, while the latter is similar to a marine insurance policy, in that the total value of the property is agreed upon in advance. The significance of the valued form of policy has been fully discussed in the chapters on marine insurance. This policy is more advantageous to the insured, other things being equal, but an additional rate of 25 cents per $100 is charged

[7] See Appendix CVI.

for it. While the amount of insurance is left to the judgment of the underwriters it is recommended that some limitation be placed upon the amount of insurance upon low priced and older cars. The policy also covers the hazard of transportation.

Fire insurance rates.[8]—We will consider separately the various classes of cars, i.e., private passenger cars, livery and renting automobiles, commercial vehicles and dealers' automobiles.

A. *Private passenger cars.*—The factors involved in the fixing of a rate are the construction of the car, the existence of protective devices, and any contingencies covered other than fire and transportation perils. These factors are discussed in the order given:

1. *Construction.*—Allowance is made for the construction of the car by a system of schedule rating[9] very similar to the system described for fire insurance on other forms of property. The various kinds of cars of different makes have been tested at the laboratories of the underwriters and a schedule applied to them which fixes "points of credit" for all good features found in the cars, that is, features which tend to diminish the fire hazard. This schedule allows a maximum of 8,000 points credit for a perfect car and these 8,000 points are apportioned among the following sub-divisions of hazard:

| | *Points* |
|---|---|
| 1. Storage of fuel | 1,200 |
| 2. Fuel feed | 1,200 |
| 3. Fuel line and fittings | 400 |
| 4. Carburetion | 400 |
| 5. Electrical equipment | 3,200 |
| 6. Exhaust system | 600 |
| 7. General workmanship | 1,000 |

Each of these main groups is then sub-divided into its essential elements. Taking the first group (storage of fuel) as an illustration, we find that 120 points are allowed for tank capacity, 600 points for the location of the tank, 240 points for the construction of the tank, and 200 points for the mounting of the tank. To illustrate the manner in which this schedule is applied, 70 points credit is allowed for a capacity of between 10 and 20 gallons, 35 points credit for a capacity of from 20 to 25 gallons, 15 points credit for a capacity of from 25 to 30 gallons, and no credit for a tank containing more than 30 gallons. A

[8] See Appendices CIX and CXI.

[9] See Appendix CIX.

tank located at the rear of the frame and not enclosed in the body is allowed 450 points credit, whereas for a tank located in the cowl and filled from under the hood, no credit is allowed. For a gravity feed system, no credit is given, for a pressure feed system 120 points credit, and for a vacuum feed system with the vacuum tank on the side of the engine block opposite the carburetor and remote from any sparking device and from exhaust piping, as high as 755 points is allowed. These illustrations are sufficient to show the manner in which credit is allowed to the various makes of cars according to their fire hazard as measured by this schedule

The result shows that the poorest car received a credit of about 400 points and the best car approximately 5,200 points, and the interval of 4,800 points is then divided into 8 classes and to each class a rate per $100 of insurance is given, as in the schedule below:

| *Class* | *Points Credit* | *Rate* |
|---|---|---|
| A | 4,600 to 5,200 | $0.40 |
| B | 4,000 to 4,600 | .45 |
| C | 3,400 to 4,000 | .55 |
| D | 2,800 to 3,400 | .65 |
| E | 2,200 to 2,800 | .75 |
| F | 1,600 to 2,200 | 1.00 |
| G | 1,000 to 1,600 | 1.25 |
| H | 400 to 1,000 | 1.50 |

The name and description of every type of automobile is given in a manual with a symbol in the form of a letter opposite each car to designate the class in which it falls. Thus, a car which received a credit of 2,900 points would fall in class D and would be marked with this letter in the manual, and would have a rate of 65 cents.

2. *Protective devices.*—Thus far the only protective device recognized is a fire extinguisher of approved type, approved by the Underwriters Laboratories, for which a reduction of 15 per cent is allowed.

3. *Other contingencies covered.*—An extra premium of 10 cents will secure protection against damage by earthquake, explosion or accidental leakage of water.

The above rates are for New England and Eastern territory. Other rates which follow the same system apply in Southern territory but rates in other portions of the United States are on a different basis.

The electric cars are written at rates below the average of those of gasoline cars. On new cars the rates for fire and transportation coverage range from 40 cents to $1.50 for the classes from A to H, while a new electric would cost 75 cents.

For a valued policy, 25 cents extra is to be added. It should be stated that the valued form will only be issued for a combined fire and theft policy, and that no reductions are allowed from the rate so found.

These rates apply for a term of insurance of one year, and coverage for a similar period is charged a relatively higher rate. Thus, for six months 70 per cent of the annual rate is charged.

It is recommended that insurance upon the cheaper and older cars be limited. Thus, it is advised that on cars costing $1,799 or less, and purchased new more than 42 months prior to the insurance, the insurance be limited to 40 per cent of the list price.

B. *Livery and renting automobiles.*—These are divided into two classes: Class A, including sight-seeing automobiles, busses, taxicabs, and all automobiles of the private passenger type used entirely or occasionally for carrying passengers for hire, and Class B, including hotel, club, and school busses. Class A is rated by adding to the ordinary private type rate an additional 1 per cent; a clause is attached to the policy reducing the amount of insurance at the rate of 2½ per cent per month. Class B is written without additional charge.

C. *Commercial vehicles.*—These are rated in the same manner as private passenger cars and assigned letters ranging from A to I, inclusive. The rates for a new car range from 75 cents to $2.35. Electric commercial vehicles are treated the same as electric private passenger cars. Special rates are granted on fleets of automobiles of commercial or livery type, embracing 10 or more cars, or a lesser number if the original cost amounts to $15,000.

D. *Dealers' automobiles.*—On this type of car no valued policy is issued. Five forms of policies are issued; Form A covering every automobile owned and for sale; Form A to cover automobiles specifically accepted by a company; Form D, a blanket form policy covering cars in more than one location; Form E, a $300 minimum and initial premium policy for whose rates special application must be made, and finally separate policies on each automobile. On the first three types of policies, the cars are written at the rate which is fixed for fire insurance

on the contents of the building, with a minimum rate of $1 for non-fireproof buildings and 50 cents for fireproof buildings; Form E requires special application to the company, and the last named is written only at dealers' rates. Rates for policies covering a manufacturer's output away from the factory premises may be had upon application.

**Theft insurance.**—This type of policy, written by an endorsement on the fire insurance form, is designed to cover the loss of property by theft. The territories are similar to those described for fire insurance and the rate varies with the list price of the car, very high rates being charged for cheaper cars by reason of their greater susceptibility to theft and disposal. Cars are divided into groups on the basis of list price, lettered from L to W. Thus, on a Pierce-Arrow costing over $9,000 the rate in eastern territory is 25 cents, whereas on a Class W car the rate is $6.85. Where there is endorsed on the policy a clause whereby the insured agrees that the automobile will be continuously equipped with an automobile locking device, an allowance of 15 per cent is granted from the theft rate, and where a clause is provided for the maintenance of a device of locking spare tires of an approved type an allowance of 5 per cent is granted from the theft rate. By reason of the unfortunate experience in some cities a penalty schedule, almost doubling the ordinary rates, has been applied. In one large eastern city this was recently removed following a reorganization of the police department.

## Chapter XXI

# TITLE INSURANCE

**Land titles.**—The value of real estate is dependent upon the security of the owner's title. To safeguard and secure titles the law prescribes certain formalities in all transactions affecting the ownership of real estate and also provides a recording system. The formalities thus necessitated are so detailed and so technical that in addition to falsely recorded statements, unintentional errors are inevitable, with the result that the title becomes defective. Experience has shown that these defects have frequently resulted in serious financial loss and everyone who buys land or lends money on the security of land should ascertain that the title to the property in which he has an interest is marketable and free from incumbrances.

**The lawyer's abstract and its defects.**—The old method of obtaining the desired information concerning the title was to have a lawyer examine the records and either furnish an abstract or give an opinion. In urban districts this method has been supplanted by the guarantees of title companies but it is still extensively used in rural communities. The defects of a plan of this kind become apparent when we consider the exact significance of the lawyer's opinion. The examination, in order to be complete, must be a history of the land from the original grant by the State to the time of the abstract, as shown by the records. These records, in most counties, run for well over a century, involve a thousand or more books containing copies of deeds, mortgages, etc., thousands of law suits, records of wills, administration, partition, and incumbrances of various kinds, including tax records. In the examination of these documents, even though the lawyer is diligent in his search and competent to pass upon the legal complications that appear, the method is imperfect and open to objection because (1) a deed regular on its face may be a forgery, (2) the marital state of the grantor may be falsely recorded, (3) the heirs of a deceased owner may be erroneously entered and (4) there may be numerous other false statements or errors impossible to detect.

If the lawyer is not guilty of negligence or of a dishonest opinion he cannot be held liable even if it is later found that the property has a bad title. Assuming, however, that he is guilty of negligence, the probability of the client being indemnified for his loss is very remote, because the lawyer who renders such an opinion usually has limited financial means. The difficulties of this method have multiplied rapidly in recent years, particularly in connection with urban real estate, where transfers are numerous and consequently the chance for error and fraud is much greater. As a result there has developed an institution larger and more capable of handling such a proposition, which is known as a Title Insurance Company.

**Guarantee of title by an insurance company.**—Title insurance companies are usually large corporations with considerable financial resources and equipped with adequate facilities for searching titles. Therefore, a land owner with his title insured by one of these companies has nothing to fear in case of dispute because he knows that the guarantor has adequate resources from which to indemnify him.

**The operations of a title company.**—Most of the title insurance companies are local in their scope and insure titles only within limited territory, due to the enormous cost of building up what is called an "abstract plant." This is the most important asset of the business and consists of classified indexes of facts which make up the history of every tract of land in the area which the company covers and is known as the "tract" system. All conveyances are recorded and kept up to date, and by means of maps and locality indexes it can be quickly ascertained what conditions affect any given plot of ground. When an application for insurance is received these records are investigated and if the title is found defective the application is rejected or the defects are enumerated in the policy and excluded from coverage.

**Extent of the guarantee.**—The guarantee given by the policy relates almost entirely to the past and in this respect differs from all other insurance, which deals with the future. The losses that are insured against in a title policy must be caused by an undisclosed defect in the title which existed at the time of the issuance of the policy. Upon first thought this would appear to be a great disadvantage; but it must be remembered that defects occurring after this time are made possible by the

wilful act or negligence of the insured, for which he should not be compensated.

**Extent of the title business.**—The insuring of land titles is a business which is comparatively young, having originated about forty years ago and grown until at the present time there is scarcely any well-populated district in the United States which does not possess a title insurance company. In fact, in some of the urban districts there are many such companies covering the same territory, with an enormous economic waste because of the duplication of expensive "abstract plants."

As previously mentioned, the usual scope of a title insurance company's business is local; but during the last few years several companies have attempted to extend the territory which they cover so as to include practically the entire country. It is impossible for one company to maintain an abstract plant for a territory so large and therefore the tract system is not used. When a company receives an application for insurance outside of its regular territory it relies on the information obtained from local title examiners or examining organizations located in the district in question.

The principal advantages of this plan of "national" title insurance accrue to persons and institutions investing in real estate in different parts of the country. For example, many life insurance companies invest their funds in real estate, particularly farm loans, and they are finding this method of title guarantee a very excellent way to protect their investments.

## Types of Policies

The business of title insurance has not yet been completely standardized, and various forms of contracts exist. There are, however, two principal types of policies, one covering the owner's risk and the other the mortgagee's risk, although many special policies covering certain phases of either kind of risk are written.

1. **Owner's risk.**—An analysis of a typical policy of this kind is given below:

A. *The insuring clause.*—The usual policy protecting the title of the owner of property promises indemnity

"for loss not exceeding $..... which the insured sustains (1) by reason of any defect of the title of the insured to the estate or interest described in Schedule A hereto annexed, affecting the premises described in said schedule, or (2) by reason of the unmarketability of the title of the insured described in said

schedule to or in said premises, or (3) because of liens or incumbrances against the same at the date of this Policy; excepting the defects, estates, objections, liens or incumbrances mentioned in Schedule B, or excepted by the conditions of this Policy, hereto annexed, and hereby incorporated into this contract, the loss and the amount to be ascertained in the manner provided in the annexed conditions, and to be payable upon compliance by the insured with the stipulations of said conditions, and not otherwise."

The "Schedule A" referred to sets forth,

"(1) The estate or interest of the insured covered by this Policy. (2) Description of the property the title to which is insured. (3) The deed or other means by which title or interest is vested in the insured."

"Schedule B" is a statement showing

"estates, interests, defects or objections to title, and liens, charges and incumbrances affecting said premises or the estate or interest insured, which do or may now exist, and against which the Company does not insure or agree to indemnify."

If the abstract shows defects in the title, they insert them at this point.

B. *The policy conditions.*—The policy conditions contain limitations, stipulations, definitions, promises, and explanations which may be grouped as follows:

(1). *Defend insured against suit.*—The policy promises to defend the insured in all actions or proceedings founded on a claim of title or incumbrance prior in date to the policy.

(2). *Conditions under which loss must arise.*—The specific conditions under which loss may arise are enumerated in the policy, which provides that no claim shall arise under the policy except in the case just mentioned in regard to suit and

"in the following cases: (I) Where there has been a final judgment rendered in a court of competent jurisdiction, under which the insured may be dispossessed or evicted from the premises covered by this Policy, or from some part or undivided share of interest therein. (II) Where there has been a final determination adverse to the title, as insured, in such a court, upon a lien or incumbrance not excepted in this Policy. (III) Where the insured shall have contracted, in good faith, in writing, to sell the insured estate or interest, and the title has been rejected because of some defect or incumbrance not excepted in this Policy, and notice in writing of such rejection shall have been given to the Company within ten days thereafter. The Company shall in that case have the option of paying the loss, of which the insured must present proper proof, or of commencing or defending within 30 days after receiving such notice, either in its own name or at its option in the name of the insured, some proper action or proceeding, begun or to be begun in a court of competent jurisdiction, for the purpose of determining the validity of the objection alleged by the vendee to the title, and only in case a final determination is made in such action or proceeding, sustaining the objection to the title, shall the Company be liable on this Policy. (IV) Where in cases of insurance on the interest of a mortgagee, the mortgage has been adjudged, by a final determination in a court of competent jurisdiction, to be a

lien inferior to that designated in this Policy; or where on foreclosure of the mortgage, the purchaser under the judgment in the action has been relieved by the court from his purchase by reason of the existence of some defect in the title or from some incumbrance thereon not excepted in this Policy. (V) Where the insured shall have negotiated a loan on the security of a mortgage on the insured estate or interest, and the title shall have been rejected by the proposed lender, the Company, if there is no dispute as to the facts, will consent to the submission of the question of a validity of the title as insured to the Appellate Division of the Supreme Court in the Department in which is situated the property affected by this Policy, and upon the judgment of that court in such action shall depend the liability of the Company. (VI) Where the insured shall have transferred the title insured by an instrument containing covenants in regard to title or warranty thereof and there has been a final judgment rendered in a court of competent jurisdiction against the assured, his executors or administrators, on any of such covenants or warranty and because of some defect of title or incumbrance against which the holder of this Policy is hereby insured."

(3). *Effect of misstatement.*—If any untrue statement affecting the insurance was made by the insured or his agent, or if there was any suppression of a material fact, the policy is void.

(4). *Assignment of policy.*—No transfer of the policy is permitted.

"Except that a policy held by the owner of a mortgage or other incumbrance may be transferred to an assignee of the interest insured, or to the purchaser at a sale under foreclosure where the property sold is bought by or for the insured, and except also in such other cases as the Company may, by special agreement, permit."

Even in these cases, the transfer must have the approval of the company before it is valid.

(5). *Reduction of premium on new policy:*

"Whenever the holder of a policy on his title as owner in fee or of a leasehold shall, within seven years from the date of the Policy, sell or mortgage any or all of the real estate therein described, and shall within thirty days thereafter apply for a new Policy on the same title, to be issued to the grantee or mortgagee, then, if the risk be again accepted by the Company, the former Policy shall be surrendered and canceled, and one-half of the sum paid as premium therefor will be allowed as a deduction from the premium on the new Policy."

(6). *Duties of insured if title is attacked:*

"In case any action or proceeding is begun, the object or effect of which shall or may be to impugn, attack or call in question the validity of the title hereby insured, as insured, or to raise any material question relating to a claim or incumbrance hereby insured against, or to cause any loss or damage for which the Company shall or may be liable under or by virtue of any of the terms or conditions of this policy, or in case any action or proceeding is begun that may have such object or effect, it shall be the duty of the insured at once to notify the Company of such fact, in writing. In such cases and in all cases where this Policy requires the Company to prosecute or defend, it shall be the duty of the insured to secure to it the right and opportunity to maintain or defend the action or proceeding, and all appeals from any deter-

mination therein, and to give it all reasonable aid therein, and to permit it to use, at its option, the names of the insured. If such notice shall not be given to the Company within ten days after the service of the first summons or other process, paper or pleading, in such action or proceedings, then this Policy shall be void. Provided, however, that an assignee for value of the Policy, with the consent of the Company thereon endorsed, shall not be affected by any such failure to notify, if such assignee, through ignorance of the fact of such action or proceeding having been begun, shall have been unable to give or cause to be given the notice required by these conditions; and provided, also, that no failure to give such notice shall affect the Company's liability, if such failure has not prejudiced and cannot in the future prejudice the Company. The Company will pay, in addition to the amount of the loss, all costs imposed on the insured in litigation carried on by it for the insured under the requirements of this Policy, but it will in no case be liable for the fees of any counsel or attorney employed by the insured, and the costs and loss paid shall not together exceed the amount of this Policy."

(7). *Adjustment of loss:*

"In every case where the liability of the Company has been definitely fixed in accordance with these conditions, the loss or damage shall be payable within thirty days thereafter. Provided, however, that in every case, the Company may demand a valuation of the insured estate or interest, to be made by three arbitrators, or any two of them, one to be chosen by the insured and one by the Company, and the two thus chosen selecting an umpire; and then no right of action shall accrue until thirty days after notice of such valuation shall have been served upon the Company, and the insured shall have tendered a conveyance or transfer of the insured estate or interest to a purchaser to be named by the Company, at such valuation, less the amount of any incumbrance on said insured estate or interest not hereby insured against, and the Company shall have failed within that time, said tender being during that time kept good, to find a purchaser for the estate or interest upon such terms. And provided, also, that this Company shall always have the right to appeal from any adverse determination; but no appeal shall operate to delay the payment of the loss, if the insured shall give to the Company satisfactory security for the repayment to the Company of the amount of such loss in case there shall be, ultimately, a determination in favor of the Company. And provided, further, that in every case the Company shall have the option of settling the claim or paying this Policy in full; and the payment or tender of payment to the full amount of this Policy shall determine all liability of the Company under it."

It is also provided that payments under the policy shall reduce the amount of insurance by such amount.

(8). *Subrogation*:

"Whenever the Company shall have settled a claim under this Policy, it shall be entitled to all the rights and remedies which the insured would have had against any other person or property in respect to such claim, had this Policy not been made, and the insured will transfer or cause to be transferred to the Company such rights, and permit it to use the name of the insured for the recovery or defense thereof. If the payment does not cover the loss of the insured, the Company shall be subrogated to such rights, in the proportion which said payment bears to the amount of said loss not covered by said payment. And the insured warrants that such right of subrogation shall vest in the Company unaffected by any act of the insured."

(9). *Items not covered:*

"Defects and incumbrances arising after the date of this Policy or created or suffered by the insured, and assessments not confirmed at the date of this Policy, are not to be deemed covered by it; and no approval of any transfer of this Policy shall be deemed to make it cover any such defect, incumbrance or assessment."

2. Mortgagee's risk.—The policy protecting the mortgagee is somewhat different from that issued to the owner, and is more than pure title insurance because it not only protects him in case of title defects, but also as to payment of the principal and interest on the mortgage. A typical contract of this type guarantees to the insured "and to such subsequent owners of the bond and mortgage described in Schedule A, as shall give to the Company prompt notice and proof of such ownership":

a. Payment of the interest on the said bond and mortgage at the rate..... per centum per annum, from when the same becomes due under the terms thereof.

b. Payment of the principal of the said bond and mortgage as soon as collected, and in any event within twelve months after the same becomes due under the terms thereof, with regular payment meanwhile of the interest at the rate hereby guaranteed.

c. To continue this guarantee on any extension of the said mortgage to which the Company shall consent in writing.

d. That the said mortgage is a valid first lien upon a good and marketable title in fee to the property described in Schedule "A."

e. To keep the mortgaged premises insured against fire, and to enforce prompt payment of all fire insurance premiums and all taxes, assessments and water rates which may become liens thereon.

f. To conduct without expense to the insured all actions or proceedings that it may deem necessary to take in connection with this guarantee, or the said bond or mortgage, and any action that may be brought against the insured as the owner thereof.[1]

On the other hand, the insured agrees:

a. That the Company is the agent of the insured to collect

[1] The "Schedule A" referred to is a description of the real property involved.

all the interest and principal secured by said bond and mortgage, and to exercise and enforce any right or option secured to the insured thereby, and by any policy of fire insurance upon the premises covered by said mortgage, and to bring in the name of the insured any action that may be necessary in connection therewith, and to receive any proceeds thereof.

b. To refrain from collecting any part of the said interest or principal, and from exercising any right or option secured by the said bond or mortgage, or by any policy of fire insurance covering the mortgaged premises, and from doing anything which in any way affects the validity, or the security, or the terms of the said bond and mortgage.

c. To permit the Company to retain as its premium for this guarantee all interest collected in excess of the rate hereby guaranteed, and to have possession of all fire insurance policies covering the mortgaged premises.

d. To produce and deposit the said bond and mortgage with the Company upon its request, and to render such reasonable assistance as the Company may require in any proceedings taken in connection therewith.

e. To notify the Company in writing promptly of any action or proceeding affecting said bond or mortgage and to forward to the Company promptly any notice relating to any policy of fire insurance affecting the mortgaged premises.

f. To assign said bond and mortgage to the Company if requested, upon receipt from it of the full amount due the insured, whenever under the terms thereof payment of the principal may be demanded.

3. **Special policies.**—Many times neither of the two policies just explained will meet the needs of persons with peculiar interests in property and special policies are therefore written. Common illustrations of this are when it is desirable to guarantee a certain feature of a will relating to property or to guarantee that certain agreements or restrictions concerning specific plots of land are legal. In these cases the extent of the pecuniary interest of the insured is usually much more difficult to ascertain than in the ordinary owners' and mortgagees' policies. Consequently, the companies are very careful when issuing such contracts and charge a high premium because of the great risk.

### The Premium

The premium varies with the company and depends largely on local conditions and the kind of policy. The rates published by a company doing a national title insurance business are as follows:

OWNERS' POLICIES

| | *Per Thousand* |
|---|---|
| Up to $25,000 | $5.00 |
| Over 25,000 to $50,000, add | 4.00 |
| Over 50,000 to 100,000, add | 3.00 |
| Over 100,000, add | 2.50 |

*These fees for owners' policies are based on the actual market value of property insured.*

MORTGAGEES' POLICIES

| | |
|---|---|
| Up to $50,000 | $3.50 |
| Over 50,000, add | 2.50 |

The fees for mortgagees' policies are based on the amount of the loan.

These fees are for insurance only and the cost of examination and other items, such as survey, must be added to the premium. In the case of the owners' policy one single payment at the beginning of the policy is the only payment ever required as long as there is no change in the title. While there is no additional insurance premium on the mortgagee's policy its equivalent is accomplished by promising to pay a stipulated rate of interest to the mortgagee, while the mortgagor pays a rate somewhat higher to the insurance company. The latter payment usually exceeds the former by about ½ of 1 per cent.

**Guaranteed mortgages.**—Along with the regular title insurance business there has developed an investment guarantee business of such magnitude that it deserves special mention.

The title insurance companies purchase first mortgages on improved real estate and then guarantee and issue them in two different forms:

1. *Guaranteed First Mortgages.*—From a list of mortgages purchased by the insurance company a customer may select one, let us say, for $10,000. When he pays for it the company assigns to him the mortgage of record, giving him the note, the mortgage, the assignment if he desires the same, title and fire insurance papers, and a mortgage insurance policy which guar-

antees a fixed net rate of interest and the return of the principal.

2. *Guaranteed First Mortgage Certificates.*—The mortgages are assigned under a trust agreement to an independent trust company and guaranteed as to principal and interest. Certificates against these mortgages are then issued in multiples of $100 and sold to investors. Nothing could be much safer, as the certificates represent an assignment of an interest in mortgages that are reinforced by:

a. *Policies of mortgage insurance.*

b. *Certificates of appraisal,* showing that the value of the property covered is at least 50 per cent in excess of the mortgage.

c. *Policies of fire insurance.*

**Advantages of title insurance.**—From the foregoing explanation it can be seen that title insurance differs from other contracts of insurance in that it deals more with the possibilities of the past than with the future. This, however, is due to the nature of the risk and does not deprive the insurance of certain advantages which may be briefly stated as follows:

1. It protects an owner against loss in case a defect appears in the title to his property. The possibility of this circumstance arising can be appreciated from a list of common defects that are disclosed at inopportune times and vitally affect the title:

a. The records may not show a deed or mortgage, which could not therefore be found in the ordinary examination, but nevertheless may affect the title.

b. One of the deeds in the chain of title may be a forgery.

c. A deed may have been made under a power of attorney after the death of the principal, which renders it void.

d. Another may have been made by an insane or otherwise incompetent person.

e. Another may have been made by a person of the same name as the owner, but having no interest.

f. A husband may not have united in the conveyance with his wife, in which case her deed is void.

g. A wife may not have united in her husband's deed, leaving her dower right outstanding.

h. A testator may have had a child born after the date of his will, who might claim his share, notwithstanding the will.

i. A will may have been revoked by the marriage of the testator after its date.

j. A conveyance by heirs of a supposed intestate may be defeated by the subsequent discovery of a will.

k. A retrospective assessment for taxes or reapportionment of the cost of local improvements might be made.

l. An heir or other person supposed to be dead may appear and recover the property.

m. A judgment upon which the title depends may be void by reason of some matter not appearing, e.g., service of process on the wrong person, failure to include all proper parties, want of authority of attorney to represent party, etc.

2. It defends the insured in case of a lawsuit involving the title.

3. It makes property marketable. The knowledge that an insurance company has guaranteed a title prevents the circulation of harmful rumors concerning the title to property. Thus, it not only makes the property easier to sell but also increases the possibility of obtaining a higher price.

4. It relieves a mortgagee of all worry concerning the collection of his principal and interest. Not only is he protected against loss because of the unmarketability of the title, but the payment of principal and interest are guaranteed.

5. It provides a safe and profitable investment in the form of guaranteed mortgages and mortgage certificates.

## Chapter XXII

# CREDIT INSURANCE

**Business failures.**—All well-managed business houses can determine in advance and with some degree of accuracy each item in their overhead expense except one—the credit loss due to bad accounts. Not knowing what this loss may be, yet wishing to make some preparation in advance, many concerns maintain a reserve for "bad debts" or "doubtful accounts." The amount set aside for this purpose is guessed at in various ways, usually being the amount ascertained by experience to be the average annual loss. This is a very satisfactory method in a normal or average year, but just when least expected these losses frequently far exceed the amount for which provision was made. Thus, the loss of one large account may wipe out the profit on a hundred others, and if the loss is very heavy it may result in financial embarrassment or even ruin.

These losses are the result of the method of doing business on credit, less than 5 per cent of our commercial transactions being made for cash. As long as we continue our present system and men remain human and fallible we can expect such losses, for it has been found by experience that there are at least as many business failures as successes. The causes for these failures are rather numerous and have been the subject of much investigation by the mercantile agencies. Bradstreet's have compiled failure statistics for many years with the following results as to the causes and their distribution.

| | *Per Cent* |
|---|---|
| Incompetence | 38.2 |
| Inexperience | 5.6 |
| Lack of Capital | 30.3 |
| Unwise Credits | 1.3 |
| Fraud | 7.0 |
| Failure of Others | 1.7 |
| Extravagance | 1.1 |
| Neglect | 1.7 |
| Competition | 1.1 |
| Specific Conditions | 11.3 |
| Speculation | .7 |
| | 100.0 |

Unfortunately, these figures do not alone tell the tale. If they did possibly some specific remedies could change them.

The conditions which bring these causes to light are usually more fundamental than the names given would indicate, and the factors underlying the axiom "when prices rise failures decrease; when prices fall failures increase" possibly go far to explain the primary cause of many failures. The solution would then seem to be price stabilization, a thing which now appears impossible and perhaps will always be so, because of our peculiar trade conditions.

The conditions referred to are the periodic "trade convulsions" which occur in this country. Other countries have their peaks and valleys in business conditions but nowhere else are they so violent or so frequent as in the United States. Speculation and over-extension of credit are usually blamed for these upheavals, the speculation really resulting from the over-extension of credit. The actual process by which this takes place may be traced somewhat as follows: Starting at the point where money becomes plentiful and the banks are willing to loan at a low rate of interest, we find that prices in some quarters begin to rise. This stimulates confidence. Business men begin to extend more credit to customers and these customers in turn extend more credit to their customers and so on *ad infinitum*. This means that credit is accumulating like an inverted pyramid, all depending on the money and the attitude of the bankers at the base. If the credit extended is confined to certain limits the base can support the pyramid, but that is not the way the American people do things. The rise in prices sets the wheels of industry turning and suddenly everybody becomes optimistic beyond belief; then credit is extended beyond the line of safety, trade is expanded beyond need, prices are increased beyond reason, speculation is rampant, money is spent foolishly and extravagantly, and just when we conclude that a "Utopia" has been achieved the rubber band of credit snaps and we plunge headlong into a period of depression and pessimism.

What causes this sudden change? Somewhere along the line the ability of some debtors to pay was doubted. This has resulted in the curtailing of credit and in the withdrawal of one of the supporting blocks at the base of the pyramid. All business being interdependent the pestilence spreads rapidly. Contraction begets contraction and this results in falling prices and increasing failures. Accounts that were thought to be the best are found worthless. Everybody doubts everybody else, and industry as a whole slows down to the detriment of all.

Surely some method should be devised whereby this evil could be eliminated. Credit insurance has been one of the suggested means to accomplish this. Credit insurance cannot eliminate failures nor can it prevent trade cycles, but it can at least mitigate the usual disastrous consequences of sudden price changes by giving merchants confidence in their book accounts. Furthermore, it does not and should not foster concerns with inherent defects; but it can reduce a large part of the loss due merely to lack of confidence, which reaches many millions each year. In fact, the total credit loss over a period of years averages greater than the fire losses, although a large portion of this is "normal" loss and not regarded as within the scope of credit insurance. Nevertheless, any system which can in any way decrease failures is an economic benefit to the country and deserves encouragement. In order better to understand the plan and functions of credit insurance we will proceed with an explanation of the existing scheme.

**General plan of credit insurance.**—Credit insurance provides a contract of indemnity promising to reimburse a wholesaler, manufacturer or jobber for the *unusual* losses incurred by him through the failure of his customers to meet their obligations.

This is not its sole purpose, because it is intended that it shall promote prudent selling either (1) by insuring only those accounts that have a good credit rating for a limited amount on individual debtors or (2) by charging a higher premium for inferior ratings and large amounts on individual debtors. Another purpose is to furnish a collection service for its policyholders. This is conducted for the protection of the insured as well as the insurance company, and has proven a valuable means of minimizing losses.

**Types of policies.**—Two principal types of policies are being written, one known as the "Limited" and the other the "Unlimited."

1. The "Limited" policy is one having a face value which is the maximum total liability of the insurer. Thus, if the policy has a face of $25,000 and the insured sustains losses aggregating $50,000 he is only partially insured even though all the lost accounts were within conservative credit limits.

2. The "Unlimited"[1] policy makes no provision for a maximum total liability and has no face value. As long as the individual losses come within the amounts specified in the "Table

[1] See Appendix CXIII or CXIV.

of Ratings," contained in the policy they will be paid regardless of the total amount.

Both types are written with many variations, of which the more important will be explained.

a. It is now customary to provide for coinsurance on all losses, the usual amount being 10 per cent, but this is higher on inferior ratings.

b. Some policies provide that an account, in order to be covered, must be placed in the hands of the insurance company for collection within a specified time after it is past due. Others make such action elective with the insured, and when this is the case the policy is termed "optional."

c. An additional premium is sometimes necessary and is adjusted according to the volume of sales when they are ascertained. Where such additional premiums can be collected the policy is called "assessable."

The effect of these different provisions will be better understood from the policy analysis which follows, explaining the two most important "unlimited" policies, either one or the other of these containing the provisions referred to.

**The policy analysis.**—The analysis which follows pertains only to the unlimited policies. Since there are two principal policies of this kind they will henceforth be designated as policy "A" and policy "B", and in those portions of the two policies where there is a material difference the clauses of each will be discussed under these headings.

1. *The application.*[2]—When credit insurance is desired, the application is made to the insurance company for a bond of indemnity. This application contains statements on the basis of which the rejection or acceptance is made. The applications are alike for policy "A" and policy "B", and the most important statements contained therein are:—

a. The mercantile agency whose ratings are used as a basis for the extension of credit.

b. The line and nature of the business and how long in it.

c. Territory covered.

d. Usual terms of sale.

e. Contemplated changes in method of doing business.

f. The gross sales and losses over the last five or six years.

2. *The insuring clause.*—The insuring clause of policy "A" reads as follows:

[2] See Appendix CXIII or CXIV.

"The.....Insurance Company hereby guarantees, under the conditions and subject to the stipulations set forth on the within pages.....of .....engaged in the business of....., against loss due to insolvency of debtors, as hereinafter defined, which shall occur within a term beginning the.....day of.....19...., and ending the.....day of .....19....., and result from the Indemnified's bona fide sales of merchandise shipped and delivered during said term in the usual course of business to individuals, firms, co-partnerships or corporations, in the United States of America, or any Territory thereof, and in the Dominion of Canada; and which is covered, proven and allowed, as is hereinafter stipulated. From the aggregate net loss, ascertained in adjustment as hereinafter provided, there shall be deducted first ten per cent (10%) thereof as coinsurance, and from the remainder an agreed Normal Loss of.....per cent., to be borne by the Indemnified, upon the total gross sales made during said term; but such Normal Loss so to be deducted shall be not less than $.....; and the remainder, if any, after said deductions, shall be the loss payable by the Company."

Policy "B" is to the effect that:

"The.....Insurance Company hereby guarantees, under the conditions and subject to the stipulations set forth on the within pages,.....of..... engaged in the business of ....., against loss, due to the insolvency of debtors as hereinafter defined, which loss shall result from the Indemnified's bona fide sales of merchandise shipped and delivered during the Bond period, beginning the.....day of.....19....., and ending the..... day of.....19...., to individuals, firms, co-partnerships or corporations, in the United States of America, or any Territory thereof, and in the Dominion of Canada; and which is covered, proven and allowed, as is hereinafter stipulated; provided the accounts have been placed with the Company for collection before they are more than seventy-five (75) days past due under the original terms of sale, and provided further that no account filed with the Company after the.....day of.....19...., shall be covered by this Bond. From the aggregate gross loss so covered, proven and allowed, there shall be deducted, first, ten per cent (10%) thereof as coinsurance, and then the other amounts hereinafter provided in the method of adjustment, and from the aggregate net loss thus ascertained an agreed Normal Loss of.....per cent., to be borne by the Indemnified, upon the total gross sales made during said Bond period; but such Normal Loss so to be deducted shall be not less than $.....; and the remainder, if any, after said deductions shall be the loss payable by the Company."

Both policies cover loss due to insolvency of debtors according to the definition of insolvency as stipulated in the policy, and both provide for coinsurance and normal loss; but there are great differences between the two policies. Policy "B" says that an account in order to be covered must be placed with the insurance company before it is more than 75 days past due under the original terms of sale, while policy "A" does not mention this and makes such action elective with the policy-holder. This is of great value where the insured does not wish to take a risk and yet does not desire to press his debtor by placing the account in the hands of the insurance company for collection. It is this privilege which gives rise to the name "Optional Policy."[3]

[3] See Appendix CXIII.

Another important difference between the two policies is the coinsurance clause. Policy "A" specifies 10 per cent deduction from the net loss and policy "B" 10 per cent deduction from the gross loss. This will be explained in detail under the loss adjustment.

3. *The premium.*—The premium in either case is calculated in accordance with the experience of the companies and is based on the following:

a. The statements made in the application.

b. The maximum coverage for individual debtors with specified ratings.

c. Whether there is a provision for the adjustment of the premium on the basis of gross sales or not.

d. The amount of coinsurance.

e. The period the policy is to run (usually one year).

f. Special riders and endorsements.

On policy "A" the entire premium for the whole period is determined and paid in advance, while on policy "B" the premium is a specified percentage of the total gross shipments and deliveries made by the indemnified during the period the policy is in force, but such amount cannot be less than the stipulated minimum, which minimum is payable in advance and the remainder, if any, upon ascertainment of the amount. This means that a person holding policy "B" cannot tell until the end of the period how much the contract is going to cost, since the total sales will not be known before that time. It should be mentioned that even though refund is made by the insurer in either case, the adjustment provided for in policy "B" appears to be the fairest means of fixing the premium, because losses usually vary directly with sales and it is sometimes impossible to accurately estimate for policy "A" the gross sales for a whole year in advance, so that the premium for the latter may frequently be inexact.

4. *Coverage.*—We have mentioned that the insurance company's application must name a mercantile agency whose capital and credit ratings will exclusively govern the shipments made under the policy. The insured is allowed much freedom of choice in this matter, the ratings of any well-known agency being acceptable. The ratings of Bradstreet's and R. G. Dun & Company are the most used and, because of their importance, some explanation of them will be given.

BRADSTREET

| *Estimated Wealth* | | | *Grades of Credit* | | |
|---|---|---|---|---|---|
| G | $1,000,000 and above | | AA | A | B |
| H | 500,000 to | $1,000,000 | | | |
| J | 400,000 to | 500,000 | A | B | C |
| K | 300,000 to | 400,000 | | | |
| L | 250,000 to | 300,000 | | | |
| M | 200,000 to | 250,000 | | | |
| N | 150,000 to | 200,000 | | | |
| O | 100,000 to | 150,000 | B | C | D |
| P | 75,000 to | 100,000 | | | |
| Q | 50,000 to | 75,000 | | | |
| R | 35,000 to | 50,000 | | | |
| S | 20,000 to | 35,000 | C | D | E |
| T | 10,000 to | 20,000 | | | |
| U | 5,000 to | 10,000 | | | |
| V | 3,000 to | 5,000 | D | E | F |
| W | 2,000 to | 3,000 | | | |
| X | 1,000 to | 2,000 | D | E | F |
| Y | 500 to | 1,000 | E | F | |
| Z | 0 to | 500 | | | |

R. G. DUN & CO.

| *Estimated Pecuniary Strength* | | | *General Credit* | | | |
|---|---|---|---|---|---|---|
| | | | *High* | *Good* | *Fair* | *Lt'd.* |
| AA | Over $1,000,000 | | A1 | 1 | 1½ | 2 |
| A+ | $750,000 to | $1,000,000 | A1 | 1 | 1½ | 2 |
| A | 500,000 to | 750,000 | A1 | 1 | 1½ | 2 |
| B+ | 300,000 to | 500,000 | 1 | 1½ | 2 | 2½ |
| B | 200,000 to | 300,000 | 1 | 1½ | 2 | 2½ |
| C+ | 125,000 to | 200,000 | 1 | 1½ | 2 | 2½ |
| C | 75,000 to | 125,000 | 1½ | 2 | 2½ | 3 |
| D+ | 50,000 to | 75,000 | 1½ | 2 | 2½ | 3 |
| D | 35,000 to | 50,000 | 1½ | 2 | 2½ | 3 |
| E | 20,000 to | 35,000 | 2 | 2½ | 3 | 3½ |
| F | 10,000 to | 20,000 | 2½ | 3 | 3½ | 4 |
| G | 5,000 to | 10,000 | | 3 | 3½ | 4 |
| H | 3,000 to | 5,000 | | 3 | 3½ | 4 |
| J | 2,000 to | 3,000 | | 3 | 3½ | 4 |
| K | 1,000 to | 2,000 | | 3 | 3½ | 4 |
| L | 500 to | 1,000 | | | 3½ | 4 |
| M | Less than | 500 | | | 3½ | 4 |

It will be noticed from these tables that certain letters are used to designate the estimated wealth or pecuniary strength of business houses. Bradstreet's give three grades of credit, while Dun gives four. The first column of credit ratings in either case is known as a first credit rating; the second column as the second credit rating, etc. For example, if a firm is rated A-A1 by the R. G. Dun agency, it has estimated pecuniary strength of from $500,000 to $750,000 and a high or first credit rating. Or if it is rated NB in Bradstreet's it means that the estimated wealth is from $150,000 to $200,000 accompanied by a second credit rating. The heavy lines which separate the different grades of credit indicate the ratings ordinarily required by credit insurance companies before they will cover a loss and then only for an individual debtor to the amount specified in the "table of ratings" contained in the policy. Practically any amount of coverage up to the capital rating can be obtained but the premium charged for such an amount is so high as to be prohibitive. The individual limits, which are considered as conservative maximums, are given in the table shown below, which is typical of the limits stipulated in a credit insurance policy.

TABLE OF RATINGS WITH CONSERVATIVE MAXIMUM CREDIT LIMITS

(R. G. Dun & Company)

| *Rating* | | *Gross Amount Covered* | *Rating* | | *Gross Amount Covered* | *Rating* | | *Gross Amount Covered* |
|---|---|---|---|---|---|---|---|---|
| *Capital* | *Credit* | | *Capital* | *Credit* | | *Capital* | *Credit* | |
| AA | A1 | $100,000 | AA | 1 | $35,000 | F | 2½ | $2,500 |
| A+ | A1 | 75,000 | A | 1 | 30,000 | F | 3 | 2,000 |
| A | A1 | 50,000 | A | 1 | 25,000 | G | 3 | 1,250 |
| B+ | 1 | 45,000 | B | 1½ | 20,000 | G | 3½ | 1,000 |

No loss is covered under a policy unless the debtor to whom the goods were shipped and delivered shall have in the latest published book of the chosen Mercantile Agency at the date of the shipment, a capital rating and its accompanying credit rating as given in the table of ratings contained in the policy. If the name of the debtor does not appear in the latest published book, then the latest report of said agency shall govern, if that report is within a specified time of the shipment (usually three or four months).

The gross amount covered on any one debtor at the date of insolvency is limited to the amount set opposite the corresponding rating of the debtor in the "table of ratings" attached to the policy.

Coverage is further restricted by the operation of a coinsurance clause and by the deduction of the so-called "normal loss." Both are illustrated in the section on "adjustment of loss."

5. *Insolvency.*—The insuring clause promises indemnity "against loss due to insolvency of debtors as hereinafter defined." Such definitions may be divided into two groups; the first where the account is filed with the company for collection and the second when certain action is taken which indicates the inability of the debtor to meet his obligations. In regard to the first group, there is a difference between policy "A" and policy "B"; in regard to the second group, both are alike. It will be recalled that the filing of an account with the insurance company for collection is optional with the insured in policy "A", and the indemnified may elect in this policy to file such an account if it is not over 60 days past due under the original terms of the sale. In Policy "B" such an account *must* be filed before it is over 75 days past due according to the original terms of sale. Such action within the time limits mentioned constitutes insolvency in either policy.

The second group of definitions is more or less standardized and appears in nearly all credit insurance policies as follows:

(1). "When a petition in bankruptcy or insolvency is filed by or against a debtor under the laws of the United States, or any State or Territory thereof, or of Canada;

(2). When a debtor makes an offer of a general compromise to his creditors for less than his indebtedness;

(3). When a receiver is appointed for a debtor;

(4). In case of the death or insanity of a sole debtor;

(5). In case of the recording of or taking possession under a chattel mortgage given by a debtor on his stock in trade to a creditor or creditors;

(6). When an attachment or execution is levied on a debtor's stock in trade;

(7). When a writ of attachment or execution against a debtor is returned unsatisfied;

(8). When a debtor transfers or sells out his stock in trade in bulk;

(9). When a debtor absconds;

(10). When a debtor makes an assignment, or a deed of trust, for the benefit of his creditors, either general or with preferences;

(11). When the stock in trade of a debtor is sold under a writ of attachment or execution;

(12). When a confession of judgment is made by a debtor;

(13). When a debtor's business is assigned to or taken over by a committee appointed by a majority, in number and amount, of his creditors."

6. *Adjustment of loss.*—When a loss occurs it is necessary to file a notification of claim within a specified time (usually 15 days) after acquiring knowledge of a debtor's insolvency, and to place the account in the hands of the company for collection if insolvency occurs as defined in the second group. If it occurs as per the first group it will already be in the hands of the company. The company must also be furnished with an itemized statement of the account and all papers, securities, or other documents relating thereto; and if requested, furnished with invoices, proofs of debt, affidavits, or any information necessary for the proper handling of any account in any proceeding and authorized to sue if necessary. The company makes a charge for this collection service and a schedule of the fees is contained in the policy.

If a claim against the company arises a final statement of such claim must be filed with the company within a specified period after the termination of the policy and the claim will then be settled. In policy "B" provision is made for an interim adjustment of claims arising under the second group of insolvencies; a rider of like nature can be obtained for policy "A" if it is desired.

The actual adjustment of the loss under policies "A" and "B" can best be understood by illustration. Let us assume that company "X" is a manufacturer of small tools, with gross sales of $1,000,000 a year. Suppose that on January 5th, this company makes a shipment and delivery of $50,000 worth of tools to the "Y" company, the terms of the sale being 2 per cent 30 days. The "Y" company is rated as AA1 by the Dun Agency and the policy specifies a maximum individual debtor liability of $75,000 for such a rating. On January 25th a receiver is appointed for the debtor, which constitutes insolvency as defined in the policy.

If the manufacturer is protected under policy "A" the net loss payable is ascertained in the following manner:

| | | |
|---|---|---|
| Gross loss covered and proven..... | | $50,000 |
| Less: (1) All discounts to which the debtor would have been entitled had the debt been paid at the date of insolvency..... | $ 2,000 | |
| (2) All amounts collected thereon and all amounts which may have been obtained from any other source ..... | 5,000 | |
| (3) The amount of goods returned or replevined, when such goods are in the undisputed possession of the Indemnified..... | 12,000 | |
| (4) All amounts mutually agreed upon as thereafter obtainable ..... | 1,000 | 20,000 |
| | | 30,000 |
| Less: 10% Coinsurance ..... | 3,000 | |
| Normal Loss ..... | 2,100 | 5,100 |
| Amount payable under Policy "A".. | | $24,900 |

A different result is obtained if the loss has occurred under policy "B."

| | | |
|---|---|---|
| Gross loss covered and proven..... | | $50,000 |
| Less: 10% Coinsurance ..... | | 5,000 |
| | | 45,000 |
| Less. (1) All discounts to which the debtor would have been entitled had the debt been paid at the date of insolvency..... | 2,000 | |
| (2) All amounts collected thereon and all amounts which may have been obtained from any other source ..... | 5,000 | |
| (3) The amount of goods returned or replevined, when such goods are in the undisputed possession of the Indemnified..... | 12,000 | |
| (4) All amounts mutually agreed upon as thereafter obtainable ..... | 1,000 | 20,000 |
| | | 25,000 |
| Less Normal Loss..... | | 2,100 |
| Amount payable under Policy "B"..... | | $22,900 |

It will be remembered that the terms "normal loss" and "coinsurance" appeared in the insuring clause, but they do not become of importance unless it is necessary to adjust a loss. To understand their meaning some explanation is necessary. The coinsurance clause in credit insurance means that the insured is a coinsurer to the extent of the specified percentage (usually 10

per cent) of any loss. It is claimed by the companies that some coinsurance is always necessary in order to reduce the moral hazard of taking unreasonable risks in the extension of credit. Notice, however, the difference in the net result of policy "A" as compared with policy "B", due to the place where coinsurance is deducted. In policy "A" it was not deducted until the actual loss was ascertained, while in policy "B" it was deducted from the gross loss with the result that there is a net difference of $2,000 in the loss payable under the two policies.

The normal loss is that amount which is normally lost in a particular line of business due to bad accounts and is expressed in a percentage of the gross sales. In some lines this is very low (less than 1/4 of 1 per cent), and in others quite high (one per cent). Since this normal loss will in all probability occur, there is no reason for insuring it. The amount, being known, can be charged against the cost of operation in the same manner as any other overhead expense. Consequently all credit insurance policies exclude the "normal loss" from coverage.

Another provision in connection with the ascertainment of the loss is to the effect that, "If the indebtedness of the debtor to the indemnified at the time of insolvency is not fully covered, then the deduction shall be made pro rata, ie., in the ratio which the amount covered bears to the whole of such indebtedness." Thus, if the table of ratings in the tool manufacturer's policy showed a maximum coverage of only $40,000 for an AA1 rating, the gross loss covered would be immediately cut to $40,000, and the other items correspondingly. This is in effect a coinsurance of 100 per cent within the ordinary usage of the term coinsurance. When the actual settlement is made by the company for a loss the accounts so covered are assigned to the company to be handled for the joint account of the indemnified and the company as their interests may appear. If any amounts later realized by the company exceed the sum paid to the indemnified the company refunds such excess.

7. *Termination.*—Policy "A" provides that "If, during the term of this Bond, the Indemnified shall become insolvent, or shall cease to continue business as heretofore carried on, or shall go into liquidation, or being a partnership shall be dissolved, then this bond shall immediately terminate and if any claim for excess loss is made, a Final Statement of Claim shall be filed by, and an adjustment shall be made with, the Indemnified in the same time and manner as if this Bond had originally by its terms

been made to expire at the date of such termination. Temporary interruption by fire or by strike, or the death or withdrawal or admission of a member of a partnership composed of more than two members, shall not be considered a discontinuance or dissolution." Policy "B" makes provision for termination as in Policy "A" and in addition by either party to the contract giving ten days' written notice to the other with a proper adjustment of the premium.

This difference between the two policies is possibly the most important of all, because under policy "B" the company can practically sidestep liability if they find a particular line of business is likely to get into financial difficulties; while under policy "A" it is impossible to avoid responsibility because the policy is non-cancellable except for the reasons given in the termination clause.

8. *Endorsements.*—Special riders and endorsements are sometimes necessary and desirable, and can be obtained for an additional premium. The most important are those providing for:

a. Interim adjustments of claims.

b. Coverage of additional sales prior to the payment of the premium.

c. Coverage of inferior ratings for limited amounts.

d. Coverage of a fraction (2/3 of the indebtedness) of the losses on inferior ratings for limited amounts.

Advantages of credit insurance.—There are many advantages of credit insurance, but among the most important advanced by the different companies writing credit insurance are the following:

1. It is equivalent to a contingent reserve to meet unexpected business losses.

2. It gives an established value to the book accounts and protects profits.

3. It furnishes an effective and efficient collection service.

4. It relieves the credit man of the worry of handling an overdue account.

5. It acts as collateral security against the calamities occurring to preferred customers.

6. It insures customers with inferior ratings.

7. It enables the concern to grant credit to a reliable firm without fear of loss and thus aids a healthy extension of credits.

8. It helps to prevent losses.

This last advantage, which the company gives under the name "salvage," is possibly more important than any of the others, particularly when a concern is threatened with bankruptcy by a few of its pressing creditors because of temporary financial embarrassment. A credit insurance company can often prevent failure by assuming the obligation of those creditors who are policy-holders and taking the accounts for collection. A creditor is always in a hurry to get his money if he has any question as to the ability of the debtor to pay, and very frequently a concern may be forced to liquidate at a great loss because some of these doubting creditors compel payment when an extension of time might have saved the company. In such cases, a credit insurance company, being willing to wait for its money, can take over the bad accounts and make payment to the creditors and prevent what might have been a disastrous failure. Such action is often to the advantage of the insurance company because the total loss sustained by them is less than if an expensive receivership or liquidation at a loss had been precipitated. Not only are the losses due to receiverships and the like cut down but the insurance company, being a heavy creditor, has something to say about the management of the unfortunate concern. This usually leads to a conservative handling of its finances and resources, with the result that the business pulls through entirely or at least the maximum amount possible is salvaged from the wreck. It is along this line that the efforts of a credit insurance company can do the most good, and as the business grows, and more and more concerns carry credit insurance, an extension of such services will be made, much to the benefit of the entire community.

## Chapter XXIII

# CORPORATE BONDING

**Development of corporate suretyship.**—Bonding is one of the oldest forms of insurance. As far back as history extends it has been customary for persons to become surety for the actions of others. The first attempt to organize a company to perform this function appears to have been made in London in 1720, when a society was formed to insure masters against loss through the dishonesty of their servants. In 1840 the first real fidelity company was organized in England, and in 1853 the State of New York authorized the formation of companies for accepting fidelity and surety risks. In 1876 a company availed itself of this privilege but did not begin business until three years later, although a Canadian corporation had already begun to write fidelity business in Canada. At first it was felt that corporate surety lacked that "moral" element which was supposed to be present in personal surety, but corporate sureties were gradually accepted for legal purposes and at the present time the total premium income from this class of business totals over $25,000,000 annually. The advantages of corporate surety are now recognized by every one who has given any thought to the subject; but many still heedlessly subject themselves to loss by becoming personal sureties for "friends." In order to examine the advantages of corporate surety we must first define the contract.

**Nature of suretyship.**—A bond is a written contract whereby one party promises to hold himself responsible for the acts or neglect of another, with respect to some contract or legal relation between the latter and a third party. The party holding himself responsible is called the "surety." In corporate bonding the surety is a corporation. The party for whose acts or neglect the surety is responsible is called the "principal" or "obligor," and may be an employee, a public officer, a contractor, a person acquiring a license, etc. The party who is protected by the bond is called the "obligee," and may be an employer, the state, a person who lets a contract, etc.

There are several differences between bonding and insurance which are worthy of note. We found insurance to be a co-operative method of indemnifying for losses, some of which were certain to occur and could be more or less accurately predicted. Bonding is selling the use of the surety's name and credit; the risks are carefully selected and it is assumed that there will be no losses. There are, of course, some losses, but this is because it is not always possible to distinguish safe from unsafe risks. The insurance contract is between two parties and may be terminated at any time by mutual consent; a bond is given for the protection of a third party and usually can be cancelled only with the consent of the obligee and, where subject to statute provisions, sometimes not then. In insurance the company is subrogated to rights which only occasionally enable it to reduce its losses; in bonding the principal is nearly always legally liable for the losses the surety is called upon to pay, and the latter can always have recourse against the former, though practically this privilege may not be worth much. This has been well expressed by the statement that "There is always a person between the surety and its liability." In spite of this bonding companies are frequently viewed by the courts as insurers rather than sureties and regarded as liable to make good defaults under nearly all circumstances.

Advantages of corporate bonding.—The advantages of corporate, as compared with personal, bonds may be viewed from the standpoint of the principal, the surety and the obligee.

1. *From the standpoint of the principal.*—The principal, by asking a friend to become his surety, is placed in a dependent position. The surety ordinarily receives no compensation and considers himself as doing the principal a favor, which in fact he is, and a very great one. If the principal is weak and the surety unscrupulous, the latter may subsequently unduly influence the former in the discharge of his duties. Furthermore, the principal is obligated to reciprocate by performing some unknown favor for the surety, if required.

2. *From the standpoint of the surety.*

a. Without recompense the personal surety assumes a liability, the extent of which is seldom recognized. The bonding company makes a business of assuming liability. The personal surety virtually becomes the endorser of a note of indefinite term; he may create a lien on his property which ren-

ders it unsaleable for a long period; he may become involved in litigation. The companies transacting a bonding business paid out millions in losses in 1920 on carefully selected risks—how unlikely it is that an individual who becomes surety will escape loss! One writer has said that "the man who asks another to sign his bond without adequately securing him is on a par with him who borrows money from his friend without intending to pay it back."

b. The personal surety can exercise little or no oversight over the actions of the principal and cannot control such actions in any way, whereas the corporate surety makes it a business to prevent losses if possible.

3. *From the standpoint of the obligee.*

a. The standing of an individual surety is usually very uncertain, and the obligee usually makes very inadequate investigation of his standing, whereas the corporation is usually a well-known institution. Where the principal proves to be irresponsible the individual surety is generally likewise irresponsible.

b. The individual surety's financial standing is subject to change, even though good at the time the bond is given. He may become insolvent or die. The obligee is usually unable to watch his condition so as to prevent loss; and when the surety is called upon he is found to have no property or a transfer to other persons has rendered such property unavailable.

c. There is always the potential danger that the surety will contest his liability and provoke a long legal dispute. The reputation of the company depends upon the prompt settlement of losses.

d. Corporations are supervised by the State and publish periodical reports.

e. The supervision exercised by the corporate surety over the principal and the safeguards required for a bond greatly diminish the possibility of loss.

**Divisions of the subject.**—Bonding is often divided into two sections—fidelity and surety risks. This is the classification quite generally adopted by State insurance departments. Fidelity risks are considered as including those where the surety guarantees the honesty of the principal, whereas the surety bond guarantees the willingness and ability of the principal as

well as his honesty. A more useful classification, however, will be to classify risks into five groups as follows:

1. *Bonds covering honesty only.*

a. Fidelity bonds, usually guaranteeing the honesty of employees.

b. Bonds for assignment of accounts, guaranteeing the character of the accounts.

2. *Bonds covering financial strength only,* i.e., court bonds of various kinds, including

a. Appeal or supersedeas bonds.

b. Bonds for costs.

c. Attachment bonds, etc.

3. *Bonds covering honesty and ability.*

a. Public official bonds, covering the honesty and ability of those holding public offices.

b. Fiduciary bonds, covering the honesty and ability of legal representatives, such as trustees, receivers, etc.

c. License bonds, covering the honesty and ability of persons licensed by the State.

d. Immigrant bonds, guaranteeing the production of immigrants when required.

4. *Bonds covering honesty, ability and financial strength.*

a. Contract bonds, which guarantee the doing of a piece of work.

b. Franchise bonds, guaranteeing compliance with the terms of the franchise.

c. Depository bonds, guaranteeing compliance with duties owing to depositors.

5. *Bonds covering honesty and financial strength.*

a. Bonds protecting against reappearance of lost instruments.

b. Miscellaneous credit guarantees, such as mechanics' lien bond, rent guarantee, bonds for freight, bonds for future delivery of merchandise, etc.

The reason for this classification will be made clear by the following discussion:

Bonds covering honesty.—*Fidelity bonds.*[1]—The fidelity bond in general guarantees honesty, and the great mass of such bonds are issued to cover employees and persons holding positions of trust. Included in this group are cashiers, bookkeepers, bank employees, managers, conductors, drivers, treas-

[1] See Appendices CXV and CXVI.

urers, collectors, union officials, officials of building and loan associations, fraternal orders, charitable associations and social clubs. The ordinary bond covers dishonesty in the form of larceny or embezzlement; but some bonds are issued also covering forgery, misappropriation, wrongful abstraction and wilful misapplication. Whether this latter coverage is appreciably greater than the former is difficult to say.

The employee who is to be the principal makes application to the company for a bond and furnishes on the application certain information which is necessary in order to form a judgment on the risk. This gives the dates of the principal events in the applicant's life and some particulars about his family, recites his experience in business, his assets and liabilities, his personal habits, the amount of insurance he carries, and the conditions surrounding his business position in a general way. He agrees in the application to pay the premium in advance and to reimburse the surety for any loss it may suffer on his account. The employer is also required to furnish a statement which gives his knowledge of the applicant, the conditions under which he is employed, his authority in financial matters, etc. These statements furnish the surety with considerable information, as well as a starting-point for its investigation.

The hazards surrounding fidelity risks may be divided into two groups, moral and physical. As to the moral hazards it is found, for example, as might be expected, that persons with criminal records or "sporty" tendencies do not constitute the best grade of risks. The applicant's personality, antecedents, environments, habits and financial conditions are all factors to be considered. On the other hand, the physical conditions under which he works are equally important. The amount of money he handles, the opportunity which is afforded for appropriating it, the extent of his control over his employer's funds, whether an inadequate wage contributes its inducement to dishonesty, and whether the employee is personally liable for shortages which occur, are all important considerations. For illustration, let us assume that the employee is responsible for shortages. In the first place, it is very difficult to tell whether a shortage represents a misappropriation by the employee or not; secondly, a claim will always be made for the whole shortage without any allowances for the inevitable losses; and thirdly, the employer will probably collect all he can from the

employee and leave the surety with small hope of reimbursement. As another illustration of the importance of the physical elements, countersignatures and audits will frequently so reduce both the opportunities for misappropriation and the amounts available as to make a risk practically negligible, while the absence of these factors may make the hazard prohibitive.

Three types of bonds are issued for fidelity risks; namely, (1) the individual form, which covers one person holding a definite position; (2) the schedule form, where the employees covered are shown on a schedule or list, the liability of the surety on each being indicated; and (3) the blanket form, where any and all employees are covered up to the full amount named in the bond. The latter is now very little used because it is not desirable from the standpoint of the surety, and the employer unnecessarily pays for an excessive amount of coverage on minor employees.

In respect to the scope of the coverage fidelity bonds may be divided into two groups, as referred to previously:

a. Bonds covering dishonesty.

b. Bonds covering dishonesty and "culpable negligence." Culpable negligence is defined in the bond.

The bond covers the employer for a specified period of time and for a specified amount on each employee named in the policy. If the employer is protected by more than one bond on the same employees he can recover from each company only that proportion of any loss which its insurance bears to the total insurance, collectible or uncollectible. The policy agrees to indemnify only for embezzlement or larceny by employees and then only for such acts as are committed within the term of the bond or its renewal and discovered within the term of the bond or within six months after expiration of the term, or the death, dismissal or retirement of the employee. The employer agrees that his statements in the application shall be considered a part of the contract, that the company has the privilege of cancelling the bond upon three months' notice and return of the pro rata premium, that the liability shall cease if the employee's duties are increased, that he will give immediate notice of the discovery of the employee's dishonesty or his indulgence in speculation or gambling, that he furnish full particulars of any dishonesty on the part of the employee within three months after discovery of the same, and that he will furnish all the aid and assistance in his power

(other than pecuniary) to bring the wrongdoer to justice. Many of the bonds referred to subsequently are somewhat similar in their provisions, and space will not permit reference to them in the same detail as we have given this bond.

2. *Account bonds.*—Where a merchant sells his accounts receivable the purchaser may demand a bond guaranteeing such accounts. A surety may issue a bond guaranteeing that no *wholly fictitious* accounts will be *intentionally* sold and assigned. This is small protection but it is as far as a surety can go without invading other fields of insurance. The principal factor involved is the honesty of the applicant.

**Bonds involving financial strength only.—Court bonds.—**

1. *Appeal bonds.*—Where there is a judgment at law against an individual and he desires to appeal the case to a higher court, it is necessary to give a bond to avoid the execution of the judgment. The surety undertakes that the principal will execute the orders of the court or, in the event of his failure to do so, the surety will satisfy the resulting damages. Such a bond is for the protection of the party who has won the case in the lower court and the hazard varies with the financial resources of the principal.

2. *Bonds for costs.*—It is frequently necessary to deposit a bond for court costs in order to institute a suit. The surety agrees that the litigant will pay the costs of the suit, if required, or will himself pay them. Again financial resources are the important feature of hazard.

3. *Attachment bonds.* Under certain circumstances, as a protection to a litigant, property may be attached in advance of a decision on the case, but a writ of attachment is not issued unless a bond is furnished that if the writ is unjustifiably issued the defendant shall be reimbursed for any damages he sustains by reason of such issuance.

4. *Injunction or mandamus bond.*—Where an order of the court is requested preventing a certain act or requiring a certain act, a bond is required to cover the possible damage to the party against whom the mandamus or injunction is issued, in case same is wrongfully issued.

5. *Replevin bonds,* covering damages for wrongful seizure of property by the sheriff.

6. *Bonds for distraint of rent,* covering damages in case a tenant's goods are wrongfully distrained for rent.

7. *Indemnity bonds to sheriff in seizing property.*

8. *Many other such bonds* might be named, such as a libellant's bond in admiralty, a bond to release a libel, a bond for the appointment of a receiver, a bond for a petition in bankruptcy, removal bonds, bail bonds, a bond on the sale of real estate of a deceased person before the expiration of time for filing claims, a bond of a legatee to pay the debts of the testator, etc.

These bonds in general are designed to protect the opposing party in litigation from damage in case the plaintiff fails to make out the case alleged, and the surety engages to do that which the unsuccessful plaintiff should do, which is usually to pay damages. Naturally the surety attempts to force the plaintiff to perform his legal duty, and if he is financially able to do so, no loss falls on the surety. These bonds, therefore, are little concerned with the moral hazard and are dependent almost entirely upon the financial strength of the principal. The surety usually protects itself by requiring the principal to deposit collateral with it and, if possible, obtains collateral up to the full amount of the bond.

Bonds involving honesty and ability.—1. *Public official bonds.*—The law requires that persons elected to fill public positions of trust shall deposit bonds for the faithful performance of their duty. We might take as an illustration a state treasurer, a tax collector or a sheriff. Under such bonds the surety obviously guarantees more than on bonds of either of the two classes previously referred to, for the first group involves honesty only, while the second involves financial strength only. A bond on a public official not only protects against fraud and dishonesty, but guarantees that he will do those things which are required by law, and failure to do the latter may be due to omission to perform duties specified, commission of acts not authorized or performance in a form other than that prescribed. These unfortunate contingencies may happen either through his dishonesty, negligence or lack of ability.

The risk assumed by the surety is increased by two facts:

a. The liability of the surety is prescribed by law and cannot be reduced by any provisions inserted in the bond.

b. The bond usually covers the full term of office, and since the surety is protecting the people of the State the bond cannot be cancelled without their consent, which is difficult to obtain, although statutes for this purpose exist in some States.

This type of bond, like the fidelity bond, obviously involves two groups of hazards, the personal and the physical. The first question relates to the honesty of the applicant. But his efficiency is equally important and yet, in many cases, persons are elected to offices entailing work with which they are absolutely unfamiliar and are sometimes even taken from farms and workshops to fill positions requiring clerical ability, accounting knowledge and financial experience. If the person has financial resources of his own the risk is greatly lessened, because he will take more care if he runs the risk of losing his own money. The physical aspect of the hazard includes his opportunities, temptations and liabilities. The amount of money handled and the system employed are obviously very important. Take, for example, a tax collector who, before he is required to account for the first fund collected, begins to receive second payments. Nothing is easier than to supply a shortage in the first fund by amounts collected on second payments, and to cover second shortages by third collections, until the defalcation reaches an enormous sum. This, in fact, is the way in which most large losses occur, as any accountant will testify. A similar situation arises where it is possible for an officer to transfer sums from one fund to another, so that any one fund audited will be found intact, any shortage being temporarily supplied from another fund, which in turn is reimbursed when necessity arises. A principal may hold office two terms and a shortage in the first term may be made good by sums abstracted from second-term funds. The surety on the second term would be liable for this loss. In regard to his liabilities, the officer usually gives bond that he will account for and pay over all moneys received. If, therefore, a bank fails in which he deposits money, even though he exercised care, his surety would be liable. Sometimes it is provided that the funds must be deposited in certain named and bonded banks and the officer relieved of responsibility; in such a case the only supervision necessary is to see that every detail of the law is complied with. The principal is usually liable for the dishonesty of his subordinates; the protection against such defalcation is to require bonds from them. As an example of the possibility of inefficiency we might mention the possibility that a recorder who is unfamiliar with clerical work may fail to record or to record properly a judgment or legal paper and through loss to a third party his surety will become liable;

or the liability of a surety for the inefficiency of a tax collector and consequent failure to collect taxes due; or the inefficiency of a sheriff, resulting in damage to a third party.

2. *Fiduciary Bonds.*—There is a great variety of these bonds, all characterized by the fact that the principal is in each case an individual who is entrusted with the safekeeping of funds for the benefit of another. Thus, there are bonds for administrators, executors, trustees, guardians, receivers, trustees in bankruptcy, assignees for the benefit of creditors, and conservators. Such trust relations are described as long-term trusts and short-term trusts, the latter being duties which can ordinarily be completed within two years.

It will be apparent that most of what has been said regarding public officials is applicable to fiduciaries. A receiver, for example, is an officer of the court required to administer the property in his possession in the manner directed. The surety binds itself to see that this is done or to pay the damages. This involves honesty and ability on the part of the principal. The principal is required to follow the direction of the court or the statutes of the State, but he may be entirely unfamiliar with the method of settling debts, collecting the assets, preparing an inventory of property, rendering accounts to the court, investment of funds and releasing himself from liability. It is very easy, therefore, for him to take some action which will render himself and his surety liable. It is now the general practice, however, for sureties to require of such principals that the estate or trust fund be placed under the joint control of the principal and the surety, in which case securities are placed in a safe deposit box subject to their joint order, while funds are similarly safeguarded by deposit in a bank.

3. *License bonds.*—In every State licenses are required of persons engaging in certain occupation—money lenders, employment agents, auctioneers, nurserymen, plumbers, warehousemen, users of explosives, electricians, draymen, theater operators, engineers, and formerly liquor dealers. The object of these bonds and the obligation of the surety is to protect the State and the public from damage arising from the manner in which the business is conducted. The proper conduct of business in these cases is usually dependent upon the honesty and ability of the principal, which is the reason for placing these bonds in this class. There is perhaps an element also of financial responsibility, but this is a

minor one. Of the various bonds cited above some will be recognized as much more hazardous than others, and some are so risky that corporate sureties almost invariably decline them without special protection of some kind.

Bonds involving honesty, ability and financial strength.—

1. *Contract Bonds.*[2]—The principal in this case has contracted to do a piece of work for the obligee and the surety makes itself liable if such work is not completed. This is more of a credit and banking proposition than an insurance enterprise, because the surety endorses the contract somewhat as a business man endorses a note. The contractor in order to fulfill his obligations must be honest, must make an intelligent bid, and must have the ability and financial strength to complete his contract, all of which the surety guarantees. The latter must therefore scrutinize the nature of the work to be done, the contract price, the proportion of completed and uncompleted work, the conditions under which the contractor is to receive his pay, and the age and financial standing of the contractor. It is customary to require that the available assets of the contractor shall be five times the amount of uncompleted work for which he is liable.

For this purpose there are two forms of bonds in use, as follows:

a. Where the obligation of the surety is void if the contractor shall "faithfully perform said contract according to the terms, covenants and conditions thereof"; and

b. Where the obligation is void if the "principal shall indemnify the obligee against any loss or damage directly arising by reason of the failure of the principal to faithfully perform said contract." The first is a bond for specific performance, the second a bond for damages.

The ordinary provisions of a contract bond are as follows:

a. That the surety shall be promptly notified of any failure on the part of the principal for which it may be liable.

b. That the surety shall have the right to assume and complete the contract upon default of the contractor and be subrogated to his rights under the contract.

c. The surety is to be liable only to the obligee, in order that it may not be proceeded against by mechanics and material men.

[2] See Appendix CXVII.

d. That the obligee shall retain the last payment for the work until the contract is satisfactorily completed.

e. That the surety shall not be liable for acts of Providence or damage by mobs, riots, civil commotions, public enemies, strikes, fire, lightning, tornadoes or cyclones.

f. The surety must be notified of any changes in the construction plans.

g. The bond does not cover efficiency, wearing qualities or maintenance of the work.

h. That all insurance carried shall share losses *pro rata.*

i. That any legal action under this bond will be taken within a limited time.

Another variety of contract bond is the "bid" or "proposal" bond which guarantees that (1) if the bidder is successful he will furnish a contract bond for the completion of the work and (2) the bid bond shall serve as such final bond. In addition to the hazards of the contract bond this bond has the disadvantage to the surety that his information is much more restricted than under the latter form of bond.

2. *Franchise Bonds.*—It is usually the practice to require the corporation to whom a franchise is granted for the operation of a public utility to deposit a bond guaranteeing the construction or operation of the utility within a specified time. The entire amount of the bond is considered as liquidated damages in case of default. It is customary to require collateral security for such bonds unless a contract for the work is given to a contractor who is bonded. The hazard is great because the franchise may be sold to a third party, the original grantee may be financially or otherwise unable to produce the utility within the time required and, in case of default, the whole amount of the bond is usually lost. This type of bond, like the contract bond, therefore involves the honesty, ability and financial strength of the principal.

3. *Depository bonds.*—These bonds are required by depositors to guarantee that their money will be promptly paid to them on legal demand, the principal reason for failure to pay on demand being the insolvency of the bank. This insolvency of the bank, which is the principal, may arise from dishonesty on the part of the management, lack of ability or want of financial strength. Depository bonds belong therefore, in the class of contract and franchise bonds. They are usually required where public funds are deposited, and the

State is often made by law a preferred creditor in case of failure, with the privilege of receiving its entire deposit before all other payments. This very greatly reduces the surety's chance of loss. There are two other instances, however, where the surety is not so favorably treated. In the case of the ordinary depositor the surety shares with the other depositors in the distribution of the assets. A depositor whose funds in a bank exceed the amount of the bond is entitled to the payment of the full amount of the excess before the surety is entitled to anything; notwithstanding the latter pays the full amount of the bond. The surety, therefore, usually provides in the bond that it shall be entitled to its share of any salvage.

Bonds of this character may be divided into two classes according to the scope of protection they afford.

a. Prompt payment bonds, which guarantee payment by the surety upon the failure of the institution and involve no waiting by the depositor.

b. Deferred payment bonds, which guarantee payment by the surety of the eventual loss, which cannot be ascertained until the affairs of the insolvent bank are finally adjusted and the extent of salvage determined.

Bonds involving honesty and financial strength—1. *Bonds for lost instruments.*—When stock certificates, insurance policies, deeds and other financial papers are lost or stolen, it is common to require a bond before issuing a new document. The bond indemnifies the maker of the instrument against the consequences of the instrument reappearing in the hands of some unscrupulous person or innocent party. The liability of the surety depends partly upon the risk of such a document reappearing, partly upon the willingness of the principal (the loser) to make good any damages suffered, and partly upon his financial ability to do so. The bond sometimes obligates the principal and surety to reimburse the maker of the instrument for the legal cost, expenses and counsel fees which may be involved in a defense of the case.

2. *Internal Revenue Bonds.*—Manufacturers of alcoholic liquids and tobacco are required to pay taxes to the Internal Revenue Department of the Government and bonds are required to insure that such taxes will be paid. These bonds will now decline in importance, of course. They were required of distillers, warehousemen, brewers, cigar manufacturers, tobacco manufacturers and exporters. Such bonds are

also required of persons distilling, warehousing and handling denatured alcohol. The penalties imposed by law for violation of the regulations greatly diminish the risk involved, as they operate to deter such persons from acting in other than a legal manner.

3. *Custom House Bonds.*—Many different varieties of custom house bonds are in use. Thus, bonds are required for guaranteeing the payment of import duties, guaranteeing the transfer of merchandise to another port for payment of duty, guaranteeing re-exportation of certain commodities, guaranteeing the use of imported articles for specific purposes which render them free of duty, etc.

4. *Miscellaneous.*—It is apparent that a bond may be required in any case where some guarantee is required that a person will fulfil duties required of him by law or contract. In addition to those already mentioned and discussed there are, for example, bonds for mechanics liens, bonds guaranteeing rent, bonds given for freight charges, bonds for the future delivery of merchandise, qualifying bonds required of insurance companies, bonds of mortgagors to make improvements on mortgaged premises, and many others, too numerous to mention.

Factors in rate-fixing.—There are several factors in corporate bonding which make underwriting judgment more important in fixing rates than is true of other forms of insurance. Bonds which involve honesty, ability and financial resources require much the same elements of judgment as do loans extended by banks, and a careful selection of risks is evidently a very important feature in underwriting success. A large portion of the premium, furthermore, is really a payment for service rather than a recompense for the assumption of risk. Loss ratios on corporate bonds vary from very low figures on certain forms where the principal deposits collateral, to high figures on fidelity risks where no collateral is obtained and where losses occur frequently. In addition to these features the term of the contract is often indeterminate, being ended by the happening of certain events, the non-payment of premiums sometimes does not invalidate the bond, and the surety often expects some indemnification from the principal for any loss it is called upon to pay.

It is evident that the portions of the premium which cover losses and expenses will vary considerably among different

kinds of bonds. In some, most of the premium goes for service; in others a considerable portion is required to cover losses. Often a large part of the services rendered by the surety consists of investigations conducted before the bond is issued. Under these circumstances it is impossible to classify risks and ascertain rates for such classifications by formulae. The insurance companies cooperate in maintaining a central bureau for promulgating rates which introduces some uniformity as between the different companies. These rates are on various bases. Rates are fixed, for example, both per unit of exposure and per unit of penalty involved, and sometimes also on the basis of the price involved in a contract. On large schedule bonds the rate is reduced as the number of principals increases. Some rates are made for one year, and others for the term of the bond.

Rates are based upon experience insofar that the amounts received must approximately equal disbursements over a period of years. But experience alone can hardly be applied to the rates for different kinds of risks, inasmuch as new types of bonds are frequently introduced, statutory requirements compel variations in the character of coverage, there is no standard for valuing deferred losses, and the element of moral hazard is difficult to measure.

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# APPENDICES

*Policy Form*_____ PART I OF APPLICATION FOR INSURANCE TO *No.*_____

THE MUTUAL LIFE INSURANCE COMPANY, OF

1. **Full name of Applicant**_____

1a. Residence Address { City _____ Street and No. (or R. R.) _____ County _____ State _____ | Business Address { City _____ Street and No. (or R. R.) _____ County _____ State _____

1b. Send "Premium Notices" to _____ address
(Insert "Residence" or "Business")

2. **Full name of Beneficiary, if any.** Relationship to yourself?
NOTE—Contingent Beneficiary, if any, should be named by separate request over Applicant's signature.

3. Do you reserve the right to change such Beneficiary?

4. What is your occupation, profession or employment?
*If more than one, state all.*

| | DAY | MONTH | YEAR |
|---|---|---|---|
| 5. Place and date of your birth? | | | |
| 6. Have you ever applied for insurance in this Company? *If so, what is the total amount now in force and number of last policy issued?* | | | |
| 7. Is your life now insured in any other company, association or society? *If so, in which and for what amount in each?* | | | |
| 8. Have you ever applied to any company, association or society for insurance without receiving a policy of the exact kind and amount applied for? *If so, give particulars.* | | | |
| 9. Is any negotiation for other insurance in any company, association or society now pending or contemplated? *If so, give particulars.* | | | |
| 10. Is the insurance hereby applied for intended to replace any other insurance on your life? *If so, give particulars.* | | | |

11. Amount of insurance hereby applied for $ _____ Plan _____ Premium Payable? { Annually / Semi-Annually / Quarterly }
*(Enter in one sum.)*

11a. Cash dividends, until otherwise directed, shall be { (1) Applied towards reduction of premium. / (2) Applied to purchase paid-up addition. / (3) Left to accumulate at interest. } *(Strike out the two options not desired.)*
NOTE—Dividends under "Term" policies may be applied only in reduction of premiums.

12. **Have you paid the Agent taking this Application the premium required for such insurance?**

It is understood and agreed (1) that if the premium for the insurance hereby applied for is not paid to the Agent at the time of making this application, no insurance shall be effected and no liability shall exist until a policy as applied for is issued and delivered to me and the first premium thereon actually paid during my lifetime; and (2) that if such premium is paid to the Agent at the time of making this application and if the Company shall be satisfied as to my insurability upon the plan and for the amount of insurance hereby applied for on the date of the medical examination therefor, the insurance shall be effective in accordance with the provisions of the policy applied for from the date of such medical examination, and such policy shall be issued and delivered to me or my legal representative, the Company having until the delivery of such policy to consider the question of such insurability on the date of said medical examination; and (3) that if the Company shall reject this application the amount paid as premium shall be returned, and that the failure of the Company to deliver a policy as applied for within sixty days after the date hereof may at my option be deemed a rejection of this application.

_____ Name in full of Person designated as Beneficiary *(To be signed by Insured or Beneficiary).*

_____ Signature in full of Applicant.

Dated at _____ this _____ day of _____ 19____
*Actual date of signature to Application.*

Form No. IY

**IF THE PREMIUM IS PAID AT THE TIME OF APPLICATION THIS RECEIPT MUST BE COMPLETED AND GIVEN TO THE APPLICANT; if it is not so paid the receipt must not be detached.**

**No other Form of RECEIPT FOR ADVANCE PAYMENT OF PREMIUM will be Recognized by the Company.**

Received of _____

the sum of _____ Dollars, as the first _____ premium
(Annual, Semi-Annual or Quarterly)

for a _____ insurance on his life on the _____ plan, for which application has been made to THE MUTUAL LIFE INSURANCE COMPANY, such premium being paid in accordance with the conditions of agreements (2) and (3) contained in said Application. (Copy of agreements on back hereof.)

_____ 19____ _____ Agent.
(Place and date)

## AGENT'S CERTIFICATE.

Insurable Age____ Premium { Anl. $_____ / S. A. $_____ / Qtly. $_____ } Name_____

| | |
|---|---|
| 1. How long and how intimately have you known Applicant? | |
| 2. Have you satisfied yourself that he is and has been of temperate habits? | |
| 3. State in dollars your estimate of his annual income? | |
| 4. By whom was this insurance suggested? | |
| 5. If Applicant resides in country, state distance and direction from nearest town; also Rural Route number. | |
| 6. What is his usual trading point? | |
| 7. If Applicant is a minor, give name and address of parent. | |
| 8. Give full name of individual or corporation by whom employed and employers address. | |
| 9. How long has he resided at present address? If less than two years give previous address, i. e., City, Street and Number. | |

E R C

DO NOT WRITE ON BLANK SPACE

I hereby certify that I personally solicited and secured the application of the above named Applicant and know he is the person described in Parts I and II of this Application. I know of nothing affecting the risk which is not fully set forth in these papers, and I unqualifiedly recommend the acceptance of the risk by the Company.

_____ Soliciting Agent

_____ General Agent

_____ Agent

By_____

## Copy of Agreements Contained in Application.

It is understood and agreed (1) that if the premium for the insurance hereby applied for is not paid to the Agent at the time of making this application, no insurance shall be effected and no liability shall exist until a policy as applied for is issued and delivered to me and the first premium thereon actually paid during my lifetime; and (2) that if such premium is paid to the Agent at the time of making this application and if the Company shall be satisfied as to my insurability upon the plan and for the amount of insurance hereby applied for on the date of the medical examination therefor, the insurance shall be effective in accordance with the provisions of the policy applied for from the date of such medical examination, and such policy shall be issued and delivered to me or my legal representative, the Company having until the delivery of such policy to consider the question of such insurability on the date of said medical examination; and (3) that if the Company shall reject this application the amount paid as premium shall be returned, and that the failure of the Company to deliver a policy as applied for within sixty days after the date hereof may at my option be deemed a rejection of this application.

## Part II. Declarations Made to the Medical Examiner of The Mutual Life Insurance Co.

N. B.—Answers to the following questions must be elicited and recorded by a regularly appointed Examiner of the Company, with no one present but the Examiner and the person examined.

**1.** A. **Part II of Application for Insurance** on the life of _____ (hereinafter designated "Insured") who answers the following questions as part of the accompanying application marked Part I and also signed by the undersigned. Said Part I is to be hereto annexed.

B. **Race** (white or black?) C. Age at **last** birthday? D. Are you **married, single** or a **widower?**

**2.** A. **Where do you reside** winter and summer?
B. Where have you resided during the past ten years?
C. Have you ever changed your residence or tried a change of climate on account of your health, or have you been advised to do so by a physician? *If so, give particulars.*
D. Do you contemplate, for any reason, either a temporary or permanent change of residence, or a trip beyond the limits of the mainland of the U. S. A. *If so, when, where and for what purpose?*
E. If foreign born have you become a citizen of the U. S. A.? F. How long have you resided in the U. S. A.?

A.
B.
C.
D.
E. F.

**3.** A. **How much insurance** is applied for in this application?
B. Has any proposal or application for insurance on your life ever been made to any Company, Society, Association or Agent upon which a policy has not been issued as applied for?
C. Has any physician ever given an opinion that you were not safely insurable?
D. When and for what Company were you last examined for life insurance?

A.
B.
C.
D.

**4.** A. **What is your present occupation** and how long have you been so engaged?
B. Have you any other occupation or business?
C. What have been your occupations during the past ten years?
D. Do you contemplate a change in occupation? *If so, what?*
E. Are you now, or have you ever been engaged, either directly or indirectly, in the sale or manufacture of malt or other spirituous beverages?
F. Are you a member of, or do you contemplate joining, any military, naval or aviation organization? *If so, give particulars*

A.
B.
C.
D.
E. Only
F.

**5.** A. **What is your weight** in ordinary clothes? B. What is your height in shoes?
C. To what extent, if any, has your weight increased or diminished during the past year, and from what cause?
D. If heavy or light in weight, state whether this is a family or an individual characteristic.
E. Which parent do you most resemble physically?

A. Weight B. Height ft. in.
C. ( lbs. increase) ( lbs. decrease)
D.
E.

**6.** A. **If you use** wine, spirits, malt liquors or other alcoholic beverages, state kind used and how much in any one day at the most.
B. How frequently do you use the amount stated?
C. If you use any of them daily, weekly or monthly, state kind and average for the past two years.
D. Have you used any of them to the extent of intoxication during the past ten years? *If so, give circumstances and dates.*
E. Have you ever taken treatment for alcoholic or drug habit?
F. If a total abstainer, how long have you been so?
G. In what form and to what extent do you use tobacco?
H. Do you now use or have you ever used opium, chloral, cocaine or any other narcotic drug?

A. Only
B
C.
D.
E.
F.
G.
H.

**7.**

| | AGE IF LIVING | STATE OF HEALTH | AGE AT DEATH | SPECIFIC CAUSE OF DEATH *If from Tuberculosis, give date of death* | DURATION OF FATAL ILLNESS |
|---|---|---|---|---|---|
| **Father** | | | | | |
| **Mother** | | | | | |
| No. living ____ **Brothers** No. dead ____ | | | | | |
| No. living ____ **Sisters** No. dead ____ | | | | | |

| | AGE IF LIVING | STATE OF HEALTH | AGE AT DEATH | CAUSE OF DEATH |
|---|---|---|---|---|
| Father's Father | | | | |
| Father's Mother | | | | |
| Mother's Father | | | | |
| Mother's Mother | | | | |

**If as longevity** is shown in the immediate family record, give briefly the number and ages of uncles and aunts.

**8.** **Has either of your parents,** or any of your brothers or sisters been afflicted with Consumption?—or Cancer, Insanity, Epilepsy or Diabetes?

Only

**9.** **Have you been closely associated** within the past two years, either at home or in business life, with a consumptive? *If so, give full particulars as to means used to prevent infection.*

**10.** A. **When were you last confined** to the house by illness? How long? What nature?
B. When did you last consult a physician, and for what?
C. Have you fully recovered and are you now in good health?
D. Give name and address of the physician who attended you.
E. Give name and address of your usual medical attendant.
F. Are you willing that your physician be consulted in regard to your health?

A.
B.
C.
D.
E.
F.

**11. Have you had any illness, disease or accident during past ten years not mentioned above?** Give details

| ILLNESS, DISEASE OR ACCIDENT | DATE | DURATION | SEVERITY | RESULTS | NAME OF MEDICAL ATTENDANT |
|---|---|---|---|---|---|
| | | | | | |

**12. Have you had since childhood** any of the following diseases or symptoms? (Each question must be read, and answered "Yes" or "No.")

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Malaria, Typhoid or other Fever? | | Pleurisy, Bronchitis, Pneumonia or any Chest or Lung Disease? | | Fits, Epilepsy, Delirium Tremens or Convulsions of any kind? | | Hydrocele or any Disease of the Testicles or Prostate Gland? | |
| Palpitation or any Disease of the Heart? | | Gastritis, Ulcer of the Stomach or any Disease of that organ? | | Neuritis, Neuralgia or Sciatica? | | Syphilis or Stricture? | |
| High Blood Pressure or any Disease of the Arteries? | | Appendicitis, frequent Diarrhea, Dysentery or any Disease of the Bowels? | | Apoplexy or Paralysis? | | Gout or Goiter? | |
| Enlarged Veins or Varicose Ulcers? | | Jaundice, Gall-stones, Biliary Colic or any Disease of the Liver? | | Mental Derangement or any Nervous Disease? | | Impairment of Eyesight or Hearing or Discharge from the Ear? | |
| Frequent Cough or Hoarseness? | | Piles, Fistula or any Disease of the Rectum? | | Painful, frequent or difficult Urination? | | Cancer, Tumors or Ulcers of any kind? | |
| Spitting or raising of Blood or any other Symptoms of Tuberculosis? | | Headaches, severe, protracted or frequent? | | Gravel or Kidney Colic or Stone? | | Skin Disease or Chronic Discharges of any kind? | |
| Asthma or Shortness of Breath? | | Vertigo, Dizziness, Fainting-spells or Unconsciousness? | | Dropsy, Bladder or Kidney Disease? | | Sunstroke or Heat Prostration? | |

**In regard to those answered "Yes", give full particulars including frequency, date, character, duration and result of each.**

I HAVE HAD NONE EXCEPT _____

**13.** A. **Have you ever had Inflammatory** or Articular Rheumatism? B. *If so, state the number of attacks.* C. *The duration of each attack* D. *In what years, and parts affected.*
A. B. C. D.

**14. Have you undergone any Surgical Operation,** or have you ever had disease of bones or joints, spinal curvature, or any bodily malformation?

**15. Has sugar, albumin or casts** ever been found in your urine?

**16.** A. **Are you ruptured?** B. *If so, do you wear a truss constantly except when in bed?*
A. B.

**17.** A. **Are you drawing or have you ever applied for a pension?** B. *If so, for what disability?*
A. B.

**18.** A. **Have you had since childhood** any chronic or constitutional disease or severe injury not fully set forth above?

I certify that my answers to the foregoing questions and statements are correctly recorded.

Signed in my presence.

_____ M. D.
Medical Examiner.

_____
Signature of the person examined. (Must be signed in presence of Medical Examiner.)

**NOTE—This blank to be filled out whenever Medical Examiner finds an impairment or does not recommend acceptance of risk.**

**See notes IX and X under instructions opposite.**

**Place and date of birth of person examined?** _____ Day _____ Month _____ Year _____

**Occupation or Employment** _____ **Residence** _____

Please furnish full particulars _____

# SPECIAL REPORT OF EXAMINER

**N. B.—This examination must not be made by a relative of the Insured (i. e. the person examined) or of the agent, nor any one pecuniarily interested in the policy.**

**1.** A. **State the rate** and quality of the pulse. (a) At rest. (b) After 50 hops. (c) Two minutes later. *(Count at least one minute. If over 88 or below 60 (at rest), examine at another time, and report the result of each examination.)*
B. **Is the pulse** intermittent, irregular, or does it reveal undue strength or weakness of heart's action?
C. **Is there any evidence** of arteriosclerosis, aneurysm or varicose veins? *If so, state location. (In examining chest remove all clothing above waist.)*
D. **Are the heart sounds** perfectly normal? *(The heart should be examined both in the recumbent and erect positions, with the stethoscope overbare skin.)*
E. **Is there any indication** of hypertrophy of the heart?
F. **Do you find the apex beat** in the normal area?

A. (a) (b) (c)
B.
C.
D.
E.
F.

BLOOD PRESSURE
Time of Day ____ A. M. ____ P. M.
Palpatory systolic ____ m. m.
Auscultatory systolic ____ m. m.
Auscultatory diastolic ____ m. m.
Instrument used ____
Kind—Mercury or Aneroid.

NOTE—Take diastolic pressure at the point in the 4th phase where the *last loud tone* is heard over artery.

**2.** A. **Are the tonsils,** throat, mouth and teeth in a healthy condition?
B. **Is there any** enlargement of thyroid or lymphatic glands? [*Full particulars required.*]

A.
B.

**3.** A. **Is the chest well formed** and is the expansion at the apex of each lung good?
B. **Does auscultation and percussion** of the chest reveal any abnormal condition in either lung—any rales, evidence of former pleurisy, emphysema, asthma, or indication of previous disease?

A.
B.

**4.** A. **State measurements of chest** (bared) on line of nipples: (a) Full inspiration. (b) Expiration.
B. **Girth at umbilicus,** without contraction of abdomen. *(Be particular to report normal measurement.)*

A. (a) Inches. (b) Inches.
B. Inches.

**5.** A. **Actual weight** in ordinary clothing, without overcoat. *(If weight approximates maximum or minimum, the Examiner must weigh the Insured. Any marked change in weight must be explained.)*
B. **Height in shoes.** *(Must be measured at time of examination.)*

A. lbs. Did you weigh him?
B. ft. in. Did you measure him?

**6.** **Have you carefully** examined the abdomen, and do you find the abdominal organs of normal size, free from tenderness and in a healthy condition?

**7.** A. **Has he a hernia?** If so, state kind.
B. **Is it reducible?** C. Do you find that a suitable truss is worn?
D. **Has he a hydrocele** or any abnormalities of the testicles?

A.
B. C.
D.

**8.** A. **Was the urine examined voided** by the Insured in your presence? See Note VI.
B. **Does Insured** rise at night to urinate?
C. **How long** has he been doing so? If any suspicion of abnormality, examine prostate.

A.
B.
C.

Specific Gravity
Reaction
Albumin
Test Used
Sugar
Test Used

**9.** **Are you satisfied** that there is no suspicion, past or present, of enlarged prostate, stricture, gonorrhea or syphilis? Before answering, examine and ask the following questions relative to syphilis: Have you ever had any sores or symptoms suggestive of syphilis? Have you ever had a Wasserman or similar blood test made? Has salvarsan or a like drug ever been injected, or any anti-syphilitic treatment, mercurial or otherwise, ever been taken?
*(If, for confidential reasons, Insured objects to have this application pass through the hands of the agent, mail with your voucher direct to the Medical Department.)*

**10.** **Are you satisfied** that the answers to Question 4, Part II., furnish full details as to occupation or employment and that there is no special hazard in his present or any contemplated occupation or mode of living? See Note II.

**11.** **Did you read each question** in 12, Part II., and elicit explicit answers to each, and are you satisfied that their meaning was fully understood?

**12.** **Judging from his appearance** and statements and your knowledge of his health record, are you satisfied that Insured uniformly enjoys good health?

**13.** **Any need of** *statement* from Insured's medical adviser?
*(If so, and you find it impracticable to secure same, require Insured or agent to do so.) A telephonic communication recorded by Examiner under "Additional Remarks" would be acceptable.*

**14.** **Are you in any way related** to the Insured or agent? *(Which one and how related?)*

**15.** **How long have you known** the Insured and how intimately?

**16.** **What knowledge have you** of the habits past and present, and general standing of the Insured.

**17.** **Have you any reason to suspect** unacknowledged over-indulgence in or free use of stimulants, or the use of narcotics, now or in the past?

**18.** **Where was this examination made?** At Insured's place of business, residence, or Examiner's office? *When making examination insist on noiseless surroundings.*

**19.** **At the time you elicited** and recorded the foregoing declarations and during the examination, was there anyone present other than the Insured and yourself?

**20.** **Can you discover** anything unfavorable in his manner of living, physical condition, personal or family history, not already mentioned?

**21.** **Are you satisfied** that Insured would seek medical advice in case of illness?

**22.** **Do you unqualifiedly** recommend the acceptance of this risk for a life policy? **(Answer "I do" or "I do not.")** See Note VII. *See Voucher below.

REVIEW THIS PAPER CAREFULLY BEFORE SIGNING. DO NOT USE DASHES OR DITTO MARKS. WHEN COMPLETED HAND TO AGENT.

I certify that the above is a record of a careful examination of the person described in and whose signature is affixed to the foregoing declarations, and that the examination was made this

_____ day of _____ 19____

Examined at _____ (Town) _____ (County) _____ (State) _____ (Medical Examiner) M. D

N. B.—THIS EXAMINATION MUST BEAR DATE OF DAY WHEN ACTUALLY MADE, AND UNDER NO CIRCUMSTANCES ANY OTHER.

_____ (P. O. Address of Medical Examiner)

If not a regularly appointed Examiner of the Company, state where graduated_____ Date of graduation_____

ADDITIONAL REMARKS.—State anything discovered by you which may influence the character of the risk, and which is not set forth fully in the foregoing answers.

## Read these Instructions as they are Imperative and must not be deviated from in any manner.

**Note I.** The answer to Question 6 must be definite and convey a clear idea as to the past and present habits of the Insured in the use of stimulants. Such answers as "moderately," "temperately," or "not to excess," and the like, will not be accepted.

If there is a history of over-indulgence or a free use of stimulants, a full explanation will be required over the signature of the Insured.

**Note II.** Full details should accompany the application where Insured is engaged or expects to engage in any hazardous employment, such as a hazardous position on a railroad, electrical employment where the voltage is in excess of 250 alternating current, auto racing in scheduled races, travelling salesman for liquors, mining, seafaring, aerial navigation, handling explosives, etc., or any occupation or amusement which would render the risk a hazardous one.

**Note III.** If a member of Insured's family has tuberculosis or within two years has died of tuberculosis, or he is associated closely at his place of business with persons suffering from tuberculosis, see that the application contains full particulars as to relationship and as to precautions to prevent infection.

**Note IV.** The specific diseases must be stated. Indefinite terms must not be used in recording causes of death of Insured's family, or in giving a history of previous illnesses Insured may have had, e. g., colic, biliousness, indigestion, etc. In such cases the application should show whether or not nephritic or hepatic colic or calculus or appendicitis, etc., was suspected. Such indefinite terms as sickness, injury, grippe, cold, catarrh, neurasthenia, etc., etc., will not be accepted without a detailed explanation.

**To be filled at Home Office.**

| REC'D. | PASSED SUBJECT TO FURTHER CONSIDERATION.<br>M. D.<br>REJECTED.<br>M. D. |
|---|---|

**Note V.** The Examiner should exercise great care in the exploration of the thorax. In all cases insist upon the chest being bared. Carefully inspect the mouth, teeth, tonsils and pharynx. Palpate the neck, noting any deviation from a normal, healthy condition. The Examiner should be thorough in his examination, no matter how well he may know the Insured, or how vigorous he may appear.

**Note VI.** The urine must invariably be voided in the presence of the Medical Examiner to enable him to know positively that the specimen examined is that of the Insured, and he must refuse to examine a specimen received in any other way. This is not only a protection to the Company but also to the Examiner.

The Examiner should test for sugar and albumin in every sample he examines, no matter what the specific gravity may be. If in previous examinations either has been found, if only a trace, this fact should appear on the application. Examine the urine in every case. Heller's test for albumin and Haines' or Fehling's test for sugar preferable. If specific gravity is more than 1029 or less than 1010 make a second complete chemical analysis of urine.

**Note VII.** To be eligible for a Life Policy the person examined should possess good health, a good constitution and a good prospect for attaining old age. If not eligible for a Life Policy and his chances are good for living a term of years, he may be insurable under an Endowment Policy which would terminate within the period of his prospective deterioration. (A Life Policy where the premiums are paid within a fixed number of years, should not be confounded with an Endowment Policy.)

**Note VIII.** The answers to the declarations made to the Medical Examiner should be free from alteration, interlineation and erasure, or when unavoidable, the same must be attested by the Insured's initials. No one except the person examined and answering the questions has the legal right to change any of the answers over his signature. Likewise, corrected or changed answers in the Special Report must be attested by the Examiner.

**Note IX.** Whenever you postpone or do not recommend a risk, or should you give an adverse opinion on a risk, or decline to examine the person proposed for insurance because of foreknowledge of his ineligibility, you are required to communicate the fact at once to the Medical Department at the Home Office.

**Note X.** If for any reason you should prefer not to state in the application certain facts disclosed by the examination, you should at once write a letter to the Medical Department, giving such facts in detail. Nothing affecting a risk should ever be withheld from the Home Office. Correspondence with respect to a person examined for insurance, if so desired, is always considered confidential. If risk is not recommended forward full details with voucher, giving full name and date of birth of the person examined.

**VOUCHER.**

Fees for Medical Examinations are paid only through the Home Office at Milwaukee. This Voucher must be filled out by the Medical Examiner at the time of the examination, detached and forwarded at once with any additional information which in his opinion may have a bearing upon the risk. See Notes IX and X.

At the close of each quarter a Company check for amount due for examinations shown by these vouchers will be forwarded which may be cashed at local bank when properly endorsed by the Medical Examiner.

Address, Medical Department,
MUTUAL LIFE INS. CO.,

_____ 19____
(Town) (County) (State) (Date)

The Mutual Life Insurance Company

To_____ M. D., Dr.

For Medical Examination of _____
(Name in full, correctly spelled.)

Do you recommend acceptance of the risk? _____
See note X.

_____
Name of Agent who requested you to make this examination.

P. O. Address of Medical Examiner_____

III

ENDOWMENT LIFE INSURANCE POLICY

# THE

# INSURANCE COMPANY,

NUMBER Specimen

AMOUNT $ 10,000

## By this Contract of Insurance Agrees to Pay

**Amount of Insurance** Ten Thousand Dollars

at the Home Office of the Company in Hartford, Connecticut, to

**Beneficiary** Mary Doe, Wife

of the Insured, immediately on receipt of due proofs of the death of

**Insured Age 35** John Doe the Insured,

of Hartford County of Hartford State of Connecticut

during the continuance of this contract and before its maturity as an endowment.

**Maturity as Endowment** The Insured, if living on the First day of February 19 39 and if the premiums required under this contract shall have been paid, shall receive the amount of this insurance.

**Premium** This contract is issued in consideration of the signed application for this insurance which is made a part hereof and copy of which is attached hereto, and of the premium of

Four Hundred Twenty-eight 10/100 Dollars,

**How Payable** payable Annually in exchange for a receipt signed by the President or a Secretary and countersigned by an authorized agent of the Company.

(The annual premium includes a premium of $ 12.90 to provide for permanent total disability benefits as set forth on the third page hereof.)

**When Payable** The first such payment shall be made on the delivery of this contract, and a like payment on or before the First day of February in each year until premiums for Twenty full years shall have been paid or until the prior death of the Insured, but no such payment will be required during permanent total disability after receipt by the Company of due proof thereof

**Where Payable** Premiums shall be paid in advance at the Home Office or to an authorized agent of the Company.

**Date Effective** This insurance shall be effective from February 1st 19 19. The Insurance Years, and all subsequent provisions for Cash Loans, Cash Values, Paid-up and Automatic Term Insurance are computed from that date.

**Incontestability** This contract shall be incontestable after one year from date of issue, except for non-payment of premiums. It is free from conditions as to residence, occupation, travel or place of death, including military or naval service unless such service shall be restricted by indorsement hereon at the time of issuance of the contract.

This contract is subject to the privileges and conditions recited on the subsequent pages hereof.

**In Witness Whereof** THE INSURANCE COMPANY has caused this instrument to be signed by its President and a Secretary, at [illegible] this First day of February 19 19.

Specimen *President.*

Specimen *Department Secretary.*

20 YEAR ENDOWMENT. PREMIUMS PAYABLE FOR 20 YEARS. NON-PARTICIPATING.
IN EVENT OF PERMANENT TOTAL DISABILITY PREMIUMS WAIVED AND MONTHLY INCOME PAYABLE WITHOUT DEDUCTION FROM INSURANCE.

Specimen Contract

III—*Continued*

## Options at Maturity

The Insured if living at the maturity of this contract as an endowment may select in lieu of the endowment then payable, one of the following options:

1. Receive a cash payment of $....4,514.00.....and a paid-up contract payable at death for $....10,000.00.....
2. Receive a paid-up contract payable at death for $....18,230.00....
3. Receive an annual income of $.....798.40.....payable during the natural life of the Insured, first payment at maturity.

Options 1 and 2 are conditioned upon evidence of insurability satisfactory to the Company.

## Special Privileges

**Cash Loans**—On demand in writing to the Home Office of the Company, after two full years' premiums shall have been paid, the Insured may borrow at any time during the year on the sole security of this contract an amount not exceeding the cash value at the end of the current insurance year as specified in the table of cash values hereinafter set forth, provided: interest in advance at the rate of five and one-half per centum per annum shall be payable and the initial interest shall be deducted from the loan; the contract shall be assigned to the Company by all of the parties in interest thereunder; the premiums shall be fully paid to the end of the current insurance year, or if not already so paid shall be deducted in the adjustment of the loan; the amount available at any time shall include any previous loan then unpaid. Loans other than to pay premiums on life contracts in this Company may be deferred for not exceeding sixty days after the application therefor is made. If the total indebtedness shall equal or exceed the cash value at the time of failure to repay any such loan or to pay interest when due, such failure shall render this contract null and void at the expiration of one month after due notice shall have been mailed by the Company to the last known address of the person to whom the loan shall have been made and of the Insured, or assignee, if any.

**Grace in Payment of Premiums.**—A grace of thirty-one days during which the contract will remain in full force will be allowed in the payment of all premiums except the first. If death shall occur within the grace period the unpaid premium, if any, for the then current insurance year will be deducted from the amount payable hereunder.

**Reinstatement of Contract.**—In case of default in the payment of any premium or interest the Company will reinstate the contract at any time, if not previously surrendered for its cash value, upon written application by the Insured to the Company at its Home Office with evidence of insurability satisfactory to the Company, payment of all premiums that would have been paid in the intervening time if no default had been made, with interest thereon at the rate of five and one-half per centum per annum computed from the premium due date, and payment or reinstatement, with interest at like rate, of any indebtedness existing at the time of default.

**Change of Beneficiary; Succession.**—Provided this contract is not assigned, the Insured may at any time and from time to time during its continuance change the Beneficiary, to take effect only when such change and the written consent of the Company thereto are indorsed upon the contract at the Home Office of the Company, or attached thereto, whereupon all rights of the former Beneficiary shall cease. If the Insured shall survive the Beneficiary or Beneficiaries or any of them named herein, the proceeds of the contract or the share of the deceased Beneficiary or Beneficiaries, as the case may be, shall be paid to the executors, administrators or assigns of the Insured, unless otherwise provided in or by indorsement upon this contract.

**Instalment Option.**—The proceeds of this contract, if not less than $1,000, may be placed in trust with the Company to pay to the Beneficiary from the time when such proceeds are payable, an annual income limited to a period of years, or an annual life income, according to the accompanying tables. The Insured if living at the maturity of the contract as an endowment may exercise the same option.

**Limited Income.**—ANY ONE OF THE NUMBER OF INCOMES MAY BE SELECTED.

| Number of Annual Incomes | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Amount of Each Annual Income per $1,000 | $214 | $181 | $155 | $140 | $127 | $116 | $107 | $100 | $94 | $88 | $84 | $80 | $76 | $73 | $70 | $68 | $65 | $63 | $61 | $60 | $58 | $57 | $55 | $54 | $53 | $52 |

**Annual Income for Life.**—INCOME HOWEVER, TO BE PAID FOR NUMBER OF YEARS STATED IN CASE OF PRIOR DEATH.

| Minimum Number of Payments | 20 | | | | | | | | | | | | 18 | | 17 | | 16 | | | | | 15 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Age Attained When Proceeds are Payable | 16 and under | 17 to 21 | 22 to 24 | 25 to 27 | 28 to 30 | 31 and 32 | 33 and 34 | 35 and 36 | 37 and 38 | 39 and 40 | 41 and 42 | 43 | 44 | 45 | 46 | 47 | 48 | 49 | 50 and 51 | 52 | 53 | 54 | 55 | 56 |
| Amount of Each Annual Payment per $1,000 | $44 | $45 | $46 | $47 | $48 | $49 | $50 | $51 | $52 | $53 | $54 | $55 | $56 | $57 | $58 | $59 | $60 | $61 | $63 | $64 | $65 | $67 | $69 | $70 |
| Minimum Number of Payments | 14 | | | 13 | | | 12 | | | 11 | | | 10 | | | 9 | | | 8 | | | 7 | | | | |
| Age Attained When Proceeds are Payable | 57 | 58 | 59 | 60 | 61 | 62 | 63 | 64 | 65 | 66 | 67 | 68 | 69 | 70 | 71 | 72 | 73 | 74 | 75 | 76 | 77 | 78 | 79 | 80 |
| Amount of Each Annual Payment per $1,000 | $72 | $73 | $75 | $77 | $79 | $80 | $84 | $85 | $87 | $91 | $93 | $95 | $100 | $102 | $104 | $112 | $113 | $115 | $117 | $121 | $130 | $132 | $145 | $143 |

**Trust Fund Option.**—The proceeds of this contract may similarly be placed in trust with the Company, to pay to the Beneficiary, during the continuance of the trust, interest on such proceeds at the rate of three and one-half per centum per annum, such proceeds to be returned at the termination of the trust, or to be paid to the executors, administrators or assigns of the Beneficiary in event of death prior to such termination. The Insured if living at the maturity of the contract as an endowment may exercise the same option.

## Non-Forfeitable Privileges

If any premium shall not be paid on or before the date when due, and if there shall be no indebtedness to the Company, the insurance will automatically continue from said due date as term insurance during the term, including the period of grace, specified in column 3 of the accompanying table and the amount of cash specified in column 4, if any, will be paid as a pure endowment at the end of the period, if the Insured is then living; or in lieu thereof, upon written request made by the Insured within three months from said due date and surrender of the contract the Company will, as the Insured may elect, either issue a contract for the amount of paid-up insurance, if any, specified in column 2, or pay the cash value, if any, specified in column 1.

If there shall be an indebtedness to the Company, and if any premium shall not be paid on or before the date when due, an amount of insurance, equal to the face amount of this contract less the indebtedness, will automatically continue from said due date as term insurance, for the term, including the period of grace, but not extending beyond the endowment period which the excess of the cash value of the contract, if any, over the indebtedness will purchase at the then age of the Insured, at the single premium rates according to the American Experience Table of Mortality, with 3½ per centum interest. Should such excess be more than sufficient to purchase term insurance to the end of the endowment period, the amount remaining will be applied to the purchase of a pure endowment, payable to the Insured, if living, at the end of the endowment period. In lieu thereof, upon written request made by the Insured within three months from said due date and surrender of the contract, the Company will, as the Insured may elect, either issue a contract for the amount of paid-up endowment insurance which said excess will purchase at the then age of the Insured, on the mortality and interest basis heretofore designated, or pay said excess in cash.

Payment of any cash value may be deferred for not exceeding sixty days after the application therefor is made.

The term insurance and the paid-up insurance specified above may be surrendered for cash and paid-up insurance shall be subject to cash loans.

If the premiums on this contract shall be paid semi-annually or quarterly, due allowance will be made in computing benefits by the above table for that portion of the year's premium paid over and above the full number of years' premiums indicated.

## Cash and Loan Values. Paid-up and Automatic Term Insurance.

The values herein specified are based upon the American Experience Table of Mortality with 3 1-2% interest and are at least equal to the entire legal reserve on this contract less not more than 2 1-2% of the amount insured hereby; and such reserve is computed upon the same table by the net level premium method. The Cash Values are at least equal to the values of the corresponding automatic options.

AGE 35

THE VALUES STATED IN COLUMNS 1, 2 AND 4 AVAILABLE IN ANY YEAR WILL BE ten TIMES THE AMOUNT STATED IN THE FOLLOWING TABLE

| At the Expiration of | Cash and Loan Values Column 1 | Paid-up Insurance* Column 2 | Insurance Automatically Continued for Column 3 Years | Insurance Automatically Continued for Column 3 Days | Cash at End of Period Column 4 |
|---|---|---|---|---|---|
| 1 Year | $ None | $ None | | 31 | $ |
| 2 Yrs. | $ 42.06 | $ 100 | 4 | 345 | $ |
| 3 " | $ 82.10 | $ 150 | 9 | 322 | $ |
| 4 " | $ 118.70 | $ 200 | 14 | 43 | $ |
| 5 " | $ 160.36 | $ 257 | 15 | | $ 60.11 |
| 6 " | $ 198.63 | $ 310 | 14 | | $ 139.44 |
| 7 " | $ 239.23 | $ 362 | 13 | | $ 216.72 |
| 8 " | $ 282.26 | $ 415 | 12 | | $ 292.02 |
| 9 " | $ 327.87 | $ 467 | 11 | | $ 365.37 |
| 10 " | $ 376.19 | $ 520 | 10 | | $ 436.82 |
| 11 " | $ 427.36 | $ 573 | 9 | | $ 506.33 |
| 12 " | $ 481.56 | $ 626 | 8 | | $ 573.98 |
| 13 " | $ 538.94 | $ 679 | 7 | | $ 639.79 |
| 14 " | $ 599.72 | $ 732 | 6 | | $ 703.79 |
| 15 " | $ 664.10 | $ 785 | 5 | | $ 765.97 |
| 16 " | $ 725.07 | $ 830 | 4 | | $ 817.49 |
| 17 " | $ 788.89 | $ 874 | 3 | | $ 866.54 |
| 18 " | $ 855.81 | $ 917 | 2 | | $ 913.31 |
| 19 " | $ 926.07 | $ 959 | 1 | | $ 957.73 |
| 20 " | $ 1000.00 | $ | | | $ |
| 25 " | $ | $ | | | $ |
| 30 " | $ | $ | | | $ |

*Payable at the end of endowment period or prior death of the Insured.

LOAN VALUES AVAILABLE DURING CONTRACT YEAR.

III—*Continued*

## Settlement in Event of Permanent Total Disability

After one full annual premium shall have been paid upon this contract and before a default in the payment of any subsequent premium, if the Insured shall furnish the Company with due proof that he has since such payment, prior to the maturity of the endowment and before having attained the age of 60, become wholly disabled by bodily injuries or disease, and will be permanently, continuously and wholly prevented thereby for life from engaging in any occupation or employment for wage or profit, the Company will waive the payment of any future premiums which may fall due on this contract during such disability, and the premiums so waived will not be deducted in any settlement of the contract. Beginning six months after receipt of due proof of permanent total disability sustained as aforesaid the Company will pay to the Insured each month, so long as he shall live and suffer such disability, an amount equal to $10 for each $1,000 of insurance stated on the first page hereof, such payments to be in addition to all other benefits hereunder provided. The Insured shall not have the right to commute such monthly instalment payments.

If the Insured shall furnish proof of like disability occurring after he shall have attained the age of 60, the Company will allow all premiums falling due after receipt of such proof, so long as he shall suffer such disability, to accumulate without interest as an indebtedness on this contract and the values in the table on page 2 shall increase in the same manner as if the premiums were being paid by the Insured.

In addition to or independently of all other causes of permanent total disability the Company will consider the entire and irrecoverable loss of the sight of both eyes, or of use of both hands, or of both feet, or of one hand and one foot, as permanent total disability within the meaning of this provision.

Upon written request signed by the Insured and upon return of this contract to the Company for proper indorsement, the Company will annul this provision and thereafter the annual premium shall be reduced by the amount charged for this benefit as stipulated on the first page hereof. In any event any annual premium payable after the Insured shall have attained the age of sixty years shall be reduced by the amount charged for this benefit.

## General Conditions

**Modifications, etc.**—No agent can make, alter or discharge this contract or extend the time for payment of premiums, nor can this contract be varied or altered or its conditions waived or extended in any respect, except by the written agreement of the Company, in compliance with the law of the state in which the contract is issued, signed by the President, or one of the Vice-Presidents or Secretaries, whose authority will not be delegated.

**Misstatement of Age.**—If the age of the Insured was incorrectly stated in the application for this contract, the amount payable hereunder shall be the insurance which the actual premium paid would have purchased at the true age of the Insured. Age will be admitted on satisfactory proof.

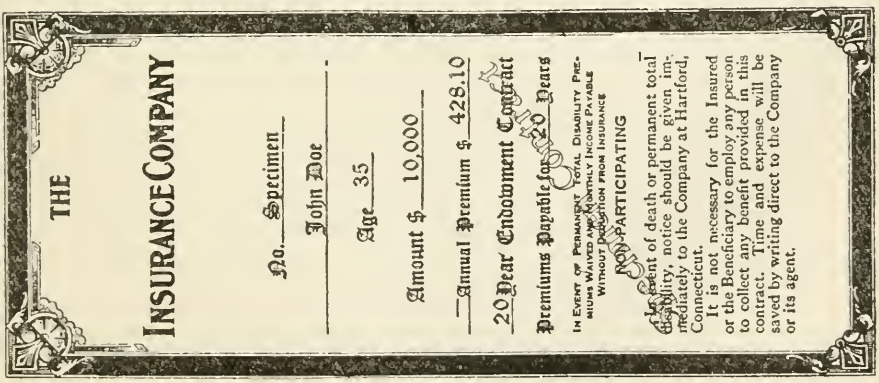
**Non-Payment of Premiums.**—If any premium shall not be paid on or before the date when due the liability of the Company shall be only as hereinbefore provided.

**Assignment.**—No assignment hereof shall be binding upon the Company unless made by an instrument in writing indorsed upon this contract or attached hereto, nor unless a duplicate shall be furnished to the Company forthwith upon its execution. The Company shall not be held responsible for the validity of any such assignment. Any claim made under an assignment shall be subject to proof of interest and extent thereof.

**Indebtedness.**—Any indebtedness to the Company on account of this contract will be deducted in any settlement hereunder. Any part of the premium for the insurance year remaining unpaid at the death of the Insured shall be considered an indebtedness to the Company hereunder.

**Suicide.**—In case of suicide committed while sane or insane within one year from the date on which this insurance shall become effective the limit of recovery hereunder shall be the premiums paid.

**Entire Contract.**—This instrument and the application constitute the entire contract between the parties hereto, and all statements purporting to be made by the Insured shall in the absence of fraud be deemed representations and not warranties and no such statement shall avoid the contract or be used in defence to a claim under the contract unless it be contained in the application therefor and a copy of such application is attached hereto.



IV

## DISABILITY CLAUSE

If after one full year's premium has been paid in cash and while this policy is still in full force without default and not as paid-up or extended insurance under the non-forfeiture provisions and before the anniversary date of the policy nearest the Insured's attained age of 60 years the Company receives at its Home Office due proof, in such form as it may require, that the Insured has became totally and permanently disabled as hereinafter defined, the Company will, without further apportionment of surplus to this policy and without deduction from the face of the policy at death of maturity and without affecting the cash and other values,

Pay to the Insured ten dollars per month per $1,000 of insurance, said monthly payments beginning six months after the receipt of such proof and terminating with the last payment preceding the maturity of or settlement under this policy whether by the death of the Insured or otherwise; or such monthly payments shall terminate with the last payment preceding cessation of such disability if that is prior to such maturity or settlement; and will also,

2. Pay the premiums under this policy as they become due during the life or disability of the Insured, beginning with the premium due on the anniversary date of this policy next succeeding the receipt of such proof.

Total and permanent disability hereunder is defined to be:

(*a*) The entire and irrecoverable loss of the sight of both eyes, or the severance of both hands at or above the wrists, or of both feet at or above the ankles, or of one entire hand and one entire foot; or

(*b*) The total and permanent inability through bodily injury or bodily or mental disease on the part of the Insured then and at any time thereafter to earn or obtain any wages, compensation or profit at any kind of work, occupation, business or profession.

Interest due on any outstanding indebtedness while this policy is in force by virtue of the disability provision shall be paid to the Company in cash or, if not so paid, shall be deducted from the monthly payments. All indebtedness on this policy shall be deducted in the settlement at maturity whether by the death of the Insured or otherwise.

Prior to and after having approved proof of the disability the Company may from time to time, but not oftener than once a year, demand proof of the existence and continuance of such disability and a physical examination of the Insured by an examiner appointed by the Company; and upon failure of the Insured to furnish such proof or to permit such physical examination to be made, or upon the Company being satisfied that the disability as above defined does not exist, the monthly payments and payment of premiums by the Company shall cease and determine and premium payments by the Insured under this policy shall be resumed. If thereafter the premium payments are not so resumed the liability of the Company under this policy shall cease and determine unless otherwise provided in this policy.

The liability of the Company under this disability clause shall terminate:

(*a*) If the extra premium for the disability benefits is not paid in accordance with the terms of this policy; or

(*b*) If this clause shall have been cancelled in writing by the Insured; or

(*c*) If the Insured shall voluntarily or involuntarily engage in military or naval service in time of war, or in any ambulance, hospital or relief service in a civilian capacity involving actual field service.

This disability benefit is given in consideration of the application therefor and of the payment of an additional annual premium of $....., which amount is included in the premium stated on the first page of this policy. Said

IV—*Continued*

additional premium shall be paid with the premium otherwise required under this policy and for the same period or until the anniversary date of this policy nearest the Insured's attained age of 60 years, should that be prior; but the payment of such additional premium and the liability of the Company under this disability clause shall terminate on the anniversary date of this policy nearest the Insured's attained age of 60 years, except that if the Insured shall furnish due proof to the Company that he has become totally and permanently disabled as hereinbefore defined after the anniversary date of this policy nearest such attained age of 60 years, the Company will, without further action on the part of the Insured, allow the subsequent premiums under this policy to accumulate with interest thereon at 5 per cent. compounded annually as an indebtedness and lien against this policy until such time as the total indebtedness under this policy shall equal or exceed the cash value thereof at which time this policy shall become null and void, subject to the notice provided for in the loan clause of this policy; but no monthly payments shall be payable hereunder if the disability occurs after the anniversary date of this policy nearest the Insured's attained age of 60 years.

## AGENT'S RENEWAL CONTRACT.
(GRADUATED RENEWALS)

**This Agreement,** Made the..... day of..... A. D. 19.....

by and between..... .....General Agent.....

of **The** **Mutual Life Insurance Company** OF and

.....

of.....in.....County,

State of.....

**Witnesseth,** That the said.....

is hereby appointed Agent of the said Company, to solicit applications and collect first year's premiums for insurance in said Company, under the direction of the said General Agent..... and subject to the requirements and provisions of this contract, within the following territory, to-wit:

The City and County of Philadelphia, in the State of Pennsylvania

with power to appoint sub-agents, subject to the approval of the said General Agent..... and the said Company; but the said Agent shall have no authority on behalf of said General Agent..... or the said Company, to make, alter, or discharge any contract, or to waive forfeitures, and his powers shall extend no further than as expressly stated in this contract.

The said General Agent....., the said Agent and the said Company are hereinafter designated as General Agent, Agent and Company, respectively.

In consideration of the rights and emoluments granted him by this contract, Agent hereby agrees that he will devote his time, energy and ability to the promotion of the interests of General Agent and of Company as contemplated by this contract, and further agrees to all of the requirements and provisions of this contract.

It is hereby mutually agreed that as full compensation for such services and work and for all expenses connected therewith, Agent shall be entitled to and shall receive (except as otherwise provided in this contract) commissions, as per the following schedule, on the first year and renewal premiums collected on all policies issued on applications secured by him or his sub-agents under this contract and within said territory: provided, however, that no commissions shall be allowed or paid on premiums charged under the Automatic Premium Loan provision until such time as the loan or any portion thereof is paid in cash and the amount remitted to the Company and then only on the amount so paid:

V—*Continued*

## SCHEDULE OF COMMISSIONS.

| KIND OF POLICY. | Per Cent. of First Year's Premium. | Per cent. of Renewal Premiums for each year, 2d to 10th both inclusive.* | KIND OF POLICY. | Per Cent. of First Year's Premium. | Per cent. of Renewal Premiums for each year, 2d to 10th both inclusive.* |
|---|---|---|---|---|---|
| Ordinary Life | 50 | 5 | 10 Payment, 25 Year End't | 22½ | 3½ |
| 5 Payment Life | 17½ | 5 | 10 Payment, 30 Year End't | 22½ | 3½ |
| 10 Payment Life | 32½ | 5 | 10 Payment, 35 Year End't | 22½ | 3½ |
| 15 Payment Life | 37½ | 5 | 10 Payment, 40 Year End't | 32½ | 3½ |
| 20 Payment Life | 40 | 5 | 15 Payment, 20 Year End't | 22½ | 3½ |
| Single Payment Life | 3 | 0 | 15 Payment, 25 Year End't | 32½ | 3½ |
| 10 Year Endowments | 12½ | 3½ | 15 Payment, 30 Year End't | 32½ | 3½ |
| 15 Year Endowments | 22½ | 3½ | 15 Payment, 35 Year End't | 37½ | 3½ |
| 20 Year Endowments | 32½ | 5 | 15 Payment, 40 Year End't | 37½ | 3½ |
| 25 Year Endowments | 37½ | 5 | 20 Payment, 25 Year End't | 32½ | 5 |
| 30 Year Endowments | 42½ | 5 | 20 Payment, 30 Year End't | 37½ | 5 |
| 35 Year Endowments | 47½ | 5 | 20 Payment, 35 Year End't | 37½ | 5 |
| 40 Year Endowments | 47½ | 5 | 20 Payment, 40 Year End't | 42½ | 5 |
| 10 Payment, 15 Year End't | 17½ | 3½ | All Single Payment End'ts | 3 | 0 |
| 10 Payment, 20 Year End't | 17½ | 3½ | Term (Convertible) | 20 | 5 |

On extra premiums, including those for "Deferred Survivorship Benefit" and "Return Premium" contracts, the first and renewal commission shall be two (2) per cent.; and on "Short Term" premiums covering less than one year of insurance there shall be no commissions.

* Except as modified by "Graduated Schedule of Renewal Commissions" on the second page of, and except also as otherwise provided by, this contract.

## Annuity Commissions.

On immediate annuities, $10 on every $100 of annuity; on deferred annuities, two (2) per cent of the annual annuity premium, but not longer than the said premiums are paid through the agency of General Agent and this contract remains in full force; on single premium deferred annuities, (10) per cent of the annual premium for a ten-payment annuity for the same deferred period and age, and nothing on the excess

Agent agrees to furnish at least One Hundred thousand dollars of insurance under this contract during each calendar year.

This contract is for the term ending .....19..... , unless it shall sooner terminate or be terminated in accordance with its terms.

It is hereby mutually agreed that all of the requirements and provisions stated on the second and third pages hereof are and shall be considered a part of this contract the same as though fully set forth over the signatures of the parties hereto.

IN WITNESS WHEREOF the said parties have hereunto set their hands on the day and year first above written.

Executed in Triplicate,

.....

.....

## Graduated Schedule of Renewal Commissions.

The years to which Agent shall be entitled (except as hereinafter otherwise provided in this contract) to renewal commissions on the renewal premiums collected on each policy secured under this contract shall be determined by the amount of new insurance (exclusive of insurance under Single Payment, Term or Renewable Term policies, or under policies on which less than one full year's premium shall be paid) furnished by him under this contract during the calendar year in which such policy was issued, as follows:

For less than $20,000 of such new insurance, no renewal commissions:

For $20,000 or more but less than $30,000 of such new insurance, renewal commissions for the second year only:

For $30,000 or more but less than $40,000 of such new insurance, renewal commissions for the second to the 3 years inclusive;

For $40,000 or more but less than $50,000 of such new insurance, renewal commissions for the second to the 4 years inclusive:

For $50,000 or more but less than $60,000 of such new insurance, renewal commissions for the second to the 5 years inclusive;

For $60,000 or more but less than $70,000 of such new insurance, renewal commissions for the second to the 6 years inclusive:

For $70,000 or more but less than $80,000 of such new insurance, renewal commissions for the second to the 7 years inclusive:

For $80,000 or more but less than $90,000 of such new insurance, renewal commissions for the second to the 8 years inclusive:

For $90,000 or more but less than $100,000 of such new insurance, renewal commissions for the second to the 9 years inclusive;

For $100,000 or more of such new insurance, renewal commissions for the second to the 10 years inclusive;

No policy shall be considered as insurance furnished until the premium or premiums thereon for the first full year be collected and paid over to Company;

In the event of a fractional part of a calendar year, the amount of such new insurance furnished therein shall be multiplied by the whole and fractional number of times such fractional part of a year is contained in a whole year and such increased amount shall, for the purposes of this Schedule, be considered as having been furnished by Agent during such calendar year.

**Anti-Rebate.** Agent shall not, either directly or indirectly, in any manner whatsoever, pay or allow or offer to pay or allow any rebate (either of any premium payable or of any part of his commission or collection fee thereon) on any policy issued or proposed to be issued by Company.

**No Brokerage.** Agent shall not accept business from (or pay commission, or any other remuneration of any kind, therefor to) any person not a duly authorized and accredited agent of Company; provided, however, that legitimate surplus business, where the applicant has the limit of insurance which another company will issue on his life, may be accepted from a regular agent of such other company if Company blank No. shall first be duly completed and subscribed to and one copy thereof shall accompany the application for each such policy.

**Extra-Territorial Business** Agent shall not solicit insurance either personally or by correspondence outside of the territory covered by this contract unless the written consent of the General Agent of Company in charge of such other territory shall first have been secured through General Agent; nor (if such solicitation is to be in a State or Territory other than that in which Agent is already licensed) until an agent's license in such other State or Territory shall have been secured through General Agent and Company.

**Commission Changes.** In the event of change in first years commissions allowed by Company to General Agent, he shall have the right, upon written notice to Agent, to correspondingly change the rates of first years commissions provided by this contract, at any time subsequent to the calendar year during which it is executed; and General

**Collection Fee.** Agent, while this contract remains in full force, shall collect, at the request of General Agent and without expense to General Agent or Company other than Agent's contract commission thereon, the renewal premiums on all policies (whether obtained under this or a previous contract) in which Agent has a renewal commission interest; but not longer (unless otherwise agreed in writing) as to any policy than such interest therein shall continue and the insured shall remain resident within the territory covered by this contract.

For the collection of any other renewal premiums which General Agent may authorize Agent to collect, Agent shall be paid a fee of one (1) per cent of such premiums; but no commission or fee shall be paid or allowed Agent for the collection of principal or interest on notes, or for paying dividends, annuities, or proceeds of policies on their surrender, cancellation or maturity.

**Removal of Insured.** In case the insured under any policy or policies obtained under this contract shall remove from the territory covered by this contract and cease to pay premiums to General Agent, the renewal commissions of Agent on the premiums thereafter collected on such policy or policies shall be reduced one (1) per cent of such premiums; but such reduction shall not be in addition to any other reduction provided by this contract.

**Evidence of Commission Interest.** Agent shall not be entitled to any commission first years or renewal on any policy unless his name shall appear on the application therefor; and in all cases where his name shall appear only as "Soliciting Agent" he shall not be entitled to any renewal commission;

and in all cases where his name shall appear only as "Agent" he shall not be entitled to any first years commission (unless the application be signed solely or jointly by one of his sub-agents as "Soliciting Agent");

and in all cases where (*a*) his name (or that of one of his sub-agents) shall appear as "Soliciting Agent" jointly with General Agent or another agent or a sub-agent not appointed by Agent or (*b*) his name shall appear as "Agent" jointly with General Agent or any other agent, or both as in (*a*) and (*b*), then such business shall be treated as joint business and Agent shall be entitled only to a pro rata share of the commissions, first years or renewal, or both, as the case may be, (provided by this contract) thereon.

Agent shall have the right to fix such rates of first years and renewal commissions payable to agent as shall be relatively commensurate with those allowed General Agent by Company upon any new plan or plans of insurance or annuity adopted by Company after the date of this contract.

**Commissions on Changed Policies.** Commissions, both first years and renewal, on policies which in the judgment of Company take or are to take the place of Renewable Term or other insurance in Company on same life, shall (irrespective of any other terms or provisions of this contract) be governed by the practice of Company relative thereto.

**Premium Default More than One year.** If default for a period longer than one (1) year shall occur in premium payment on any policy or policies secured under this contract, Agent shall lose, except as provided in the next succeeding paragraph marked (*aa*), all right to commissions on any premium or premiums collected in restoration of or subsequently on such policy or policies.

(*aa*) On premiums (for the 1st to the 10th policy years inclusive) collected by or through Agent in restoration of and subsequently on any policy or policies issued by Company on and after January 1st 1907, which shall have been in premium default for more than one (1) year and the insured under which shall reside within the territory covered by this contract at the time of such restoration, Agent (if the policy or policies shall have been secured under this contract) shall be entitled to commissions, as provided by this contract, the same as if premium default had not occurred; or (if the policy or policies shall not have been secured under this contract), as so provided for policies of a similar plan of insurance and for corresponding policy year or years.

**Commissions to be Refunded.** If Company shall recall any policy and return the premiums paid thereon, Agent shall lose all right to commissions on account of such policy, and shall pay to General Agent or Company, on demand, the amount of commissions received by Agent on such premiums.

**Offsets to Commissions.** General Agent or Company may, at any time, offset against any commissions, accrued or to accrue to Agent, any debt or debts due from Agent to Company arising from his transactions under this

or any previous contract, and any debt or debts due from Agent to General Agent; and General Agent or Company may pay to any sub-agent any commission or other remuneration due him from Agent and offset such payment or payments against any commissions due or to become due Agent; but neither shall be obliged to make such offsets or payments.

**No Assignment.** No rights or interests of Agent in or under or by virtue of this contract shall be sold or assigned, or subject to sale or assignment.

**Fees and Supplies.** It is understood that Company is to pay license fees of Agent and of his duly appointed sub-agents, and for Medical examinations made in accordance with its instructions (except in cases where none of the insurance issued thereon shall be put in force), and is to furnish such supply of blanks and canvassing material as it shall deem proper.

**Remittances and Reports.** Agent shall be responsible for all moneys received for or on behalf of Company, either by him or by sub-agents or others appointed or employed by him; all such moneys shall be treated as trust funds and shall be used for no purpose other than as hereinafter stated.

Agent shall on Saturday of each week, or at other times if required, remit to General Agent in full for all such moneys received by him and previously unremitted, including all premiums (exclusive of dividends and less his commissions and collection fees thereon, if any) collected or put in force by Agent or reported to him by others. Agent shall also make reports of business done under this contract as he may be required.

**Bond.** Agent shall furnish and keep in force a good and sufficient bond, satisfactory to General Agent, for the faithful performance of this contract, and shall reasonably increase same as his business increases, at request of General Agent.

**Sub-Agents.** In contracting with sub-agents, Agent shall use, without deviation, the printed forms for sub-agents contracts furnished or approved by Company. Each contract shall be executed in quadruplicate, two of which (one for Company) shall be immediately furnished General Agent.

Agent shall not pay any commission to any one before such a contract shall have been executed with him and the necessary agent's license shall have been requested.

**Exclusive Work.** Agent shall do no business for any other life insurance company except upon lives not acceptable by Company, or where the life proposed has the limit of insurance Company will issue thereon.

Agent shall not enter into or be engaged in any business other than that covered by this contract during its continuance, except with written consent of General Agent.

**Rules and Instructions.** Agent shall comply with the rules and instructions of Company now in force or issued during the continuance of this contract.

**Termination Provisions.** (a) This contract shall terminate at the expiration of its term; or, prior thereto, in the event of either the death of Agent or the termination by death or otherwise of the contract of General Agent with Company.

(b) This contract may be terminated by General Agent or Company at any time, upon written notice to Agent, by reason of the failure of Agent to keep and comply with any of its requirements or provisions; or by reason of Agent becoming (in the opinion of General Agent or Company) incapacitated by sickness or any other cause; or (unless the contract be modified by mutual agreement approved by company of General Agent and Agent) by reason of any legislation, or any court decision, or any Insurance Department requirement, which (in the opinion of Company) either (*a*) contravenes any provision of this contract or (*b*) renders it expedient for the Company to withdraw from any part of the territory covered by this contract.

(c) This contract may be terminated by Agent at any time, upon sixty (60) days written notice to General Agent.

**Commissions after Termination.** (*1*) If this contract shall terminate as set forth in the third preceding paragraph, marked (a); or if it shall be terminated by General Agent or Company except as set forth in the next succeeding paragraph, numbered (*b*); or if it shall be terminated by Agent subsequent to three (3) years from its date; then and in any such event, the commission rights of Agent under this contract shall not be affected, except that the commissions on renewal premiums thereafter collected shall be reduced one (1) per cent of such premiums; provided, however, that if a new contract be made between the parties hereto, the said reduction shall not apply to renewal commissions due under this contract during the time such new contract shall remain in full force; and provided further that if Agent, at any time after any such termination (other than

Agent shall carry out in good faith each contract made by him or make amicable arrangements, satisfactory to General Agent, for the modification or discontinuance of same.

Agent shall be responsible to General Agent, as well as to Company, for all business done by or entrusted to sub-agents or other persons appointed or employed by Agent, and no such person shall have any claim whatever against General Agent or Company for commissions or otherwise.

**Indemnity.** Agent shall indemnify and save harmless General Agent as well as Company from and against all expense, costs and damages resulting from litigation growing out of any unauthorized acts or transactions of Agent.

**Archives.** All books, correspondence, documents and records, of any and every description, relating to the business of Company, now or hereafter in the possession of Agent shall be the property of Company, whether paid for by it or not, and shall always be subject to examination by General Agent or a representative of Company and shall be delivered to General Agent or Company upon the termination of this contract.

**Applications.** All applications for insurance in Company taken by or for Agent shall be delivered to Company, whether the same be recommended by Medical Examiner or not.

as may be caused by termination of contract of General Agent with Company) shall act for any other life insurance company (either as agent or broker, or otherwise) then and in that event the reduction of one (1) per cent provided for in this paragraph shall be increased to two (2) per cent on the premiums thereafter collected.

(2) If this contract shall be terminated by General Agent or Company within three (3) years from its date for the violation by Agent of any of its requirements or provisions; or, if it shall be terminated by Agent within three (3) years from its date; then and in either such event, all rights and interests of Agent, in or under or by virtue of this contract, shall thereupon cease and determine, except as to first years commissions upon deferred semi-annual and quarterly premiums; but nothing contained herein or done hereunder shall affect any claim of General Agent or Company against Agent.

**Waiver.** No forbearance or neglect on the part of General Agent or Company shall be construed as a waiver of any of his or its rights or privileges under this contract, unless in each instance a written memorandum expressing such waiver be made and subscribed to by the party against whom such waiver shall be claimed.

**Company Liability.** Nothing contained in this contract shall make or be construed to make Company liable to Agent in any manner whatsoever, except only such liability as may be assumed by Company by duly subscribing to the endorsement printed on the back of this contract.

VI

## SAMPLE PAGE OF LIFE INSURANCE RATE BOOK

**25 LIFE Premium $20.70**

| Yr | Cash or Loan | Paid Up | Extension Yrs | Extension Days |
|---|---|---|---|---|
| 3 | $ 26 61 | $ 71 | 3 | 159 |
| 4 | 36 04 | 95 | 4 | 249 |
| 5 | 45 76 | 119 | 5 | 355 |
| 6 | 55 77 | 142 | 7 | 111 |
| 7 | 66 09 | 166 | 8 | 240 |
| 8 | 76 72 | 189 | 10 | 6 |
| 9 | 87 67 | 212 | 11 | 134 |
| 10 | 98 94 | 236 | 12 | 245 |
| 11 | 110 55 | 259 | 13 | 325 |
| 12 | 122 49 | 282 | 15 | 0 |
| 13 | 134 77 | 304 | 15 | 356 |
| 14 | 147 39 | 327 | 16 | 297 |
| 15 | 160 36 | 349 | 17 | 191 |
| 16 | 173 67 | 371 | 18 | 42 |
| 17 | 187 34 | 393 | 18 | 215 |
| 18 | 201 37 | 414 | 18 | 353 |
| 19 | 215 77 | 436 | 19 | 92 |
| 20 | 230 50 | 457 | 19 | 166 |
| 21 | 245 59 | 478 | 19 | 214 |
| 22 | 261 01 | 498 | 19 | 239 |
| 23 | 276 76 | 518 | 19 | 243 |
| 24 | 292 81 | 538 | 19 | 229 |
| 25 | 309 14 | 557 | 19 | 198 |

**25 LIFE 25 Payments Premium $26.90**

| Yr | Cash or Loan | Paid Up | Extension Yrs | Extension Days |
|---|---|---|---|---|
| 3 | $ 44 81 | $120 | 5 | 358 |
| 4 | 60 79 | 160 | 8 | 93 |
| 5 | 77 30 | 200 | 10 | 236 |
| 6 | 94 37 | 241 | 13 | 40 |
| 7 | 112 04 | 281 | 15 | 210 |
| 8 | 130 30 | 321 | 17 | 339 |
| 9 | 149 18 | 362 | 20 | 21 |
| 10 | 168 71 | 402 | 21 | 337 |
| 11 | 188 90 | 442 | 23 | 193 |
| 12 | 209 78 | 482 | 24 | 331 |
| 13 | 231 36 | 522 | 26 | 31 |
| 14 | 253 67 | 562 | 27 | 36 |
| 15 | 276 73 | 602 | 27 | 358 |
| 16 | 300 57 | 642 | 28 | 278 |
| 17 | 325 23 | 682 | 29 | 172 |
| 18 | 350 72 | 722 | 30 | 51 |
| 19 | 377 08 | 762 | 30 | 295 |
| 20 | 404 33 | 801 | 31 | 190 |
| 21 | 432 51 | 841 | 32 | 116 |
| 22 | 461 65 | 881 | 33 | 99 |
| 23 | 491 79 | 920 | 34 | 186 |
| 24 | 522 97 | 960 | 36 | 156 |
| 25 | 555 22 | 1000 | Paid up | |

**25 LIFE 30 Payments Premium $24.60**

| Yr | Cash or Loan | Paid Up | Extension Yrs | Extension Days |
|---|---|---|---|---|
| 3 | $ 38 14 | $102 | 5 | 10 |
| 4 | 51 71 | 136 | 6 | 332 |
| 5 | 65 73 | 170 | 8 | 321 |
| 6 | 80 22 | 205 | 10 | 334 |
| 7 | 95 19 | 239 | 12 | 358 |
| 8 | 110 66 | 273 | 15 | 5 |
| 9 | 126 63 | 307 | 16 | 341 |
| 10 | 143 12 | 341 | 18 | 243 |
| 11 | 160 17 | 375 | 20 | 69 |
| 12 | 177 77 | 409 | 21 | 183 |
| 13 | 195 94 | 442 | 22 | 228 |
| 14 | 214 70 | 476 | 23 | 210 |
| 15 | 234 06 | 509 | 24 | 140 |
| 16 | 254 04 | 543 | 25 | 24 |
| 17 | 274 67 | 576 | 25 | 235 |
| 18 | 295 96 | 609 | 26 | 50 |
| 19 | 317 93 | 642 | 26 | 206 |
| 20 | 340 59 | 675 | 26 | 343 |
| 21 | 363 98 | 708 | 27 | 106 |
| 22 | 388 09 | 740 | 27 | 229 |
| 23 | 412 95 | 773 | 27 | 354 |
| 24 | 438 58 | 805 | 28 | 129 |
| 25 | 464 99 | 837 | 28 | 286 |

**25 LIFE 20 Payments Premium $30.40**

| Yr | Cash or Loan | Paid Up | Extension Yrs | Extension Days |
|---|---|---|---|---|
| 3 | $ 55 31 | $148 | 7 | 194 |
| 4 | 75 06 | 198 | 10 | 167 |
| 5 | 95 49 | 248 | 13 | 195 |
| 6 | 116 64 | 297 | 16 | 241 |
| 7 | 138 54 | 347 | 19 | 238 |
| 8 | 161 21 | 397 | 22 | 121 |
| 9 | 184 66 | 448 | 24 | 238 |
| 10 | 208 95 | 498 | 26 | 233 |
| 11 | 234 09 | 548 | 28 | 125 |
| 12 | 260 12 | 598 | 29 | 301 |
| 13 | 287 07 | 648 | 31 | 51 |
| 14 | 314 97 | 698 | 32 | 127 |
| 15 | 343 86 | 748 | 33 | 188 |
| 16 | 373 77 | 799 | 34 | 264 |
| 17 | 404 76 | 849 | 36 | 27 |
| 18 | 436 85 | 899 | 37 | 270 |
| 19 | 470 12 | 950 | 40 | 42 |
| 20 | 504 59 | 1000 | Paid up | |
| 21 | 514 30 | | | |
| 22 | 524 23 | | | |
| 23 | 534 37 | | | |
| 24 | 544 70 | | | |
| 25 | 555 22 | | | |

VII

## SAMPLE PAGE OF INDUSTRIAL LIFE INSURANCE RATE BOOK

## ADULT WHOLE LIFE POLICY, Premiums Terminating at Age 70

INDUSTRIAL POLICY—PARTICIPATING

**Payable at Death Only**

| Age Next Birthday | AMOUNT OF INSURANCE FOR WEEKLY PREMIUM OF | | | | | | | | | | | | | | | Age Next Birthday When Insured | Weekly Premium for Insurance of $500 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 3 Cents | 5 Cents | 10 Cents | 15 Cents | 20 Cents | 25 Cents | 30 Cents | 35 Cents | 40 Cents | 45 Cents | 50 Cents | 55 Cents | 60 Cents | 65 Cents | 70 Cents | | |
| 10 | $89 | $149 | $ ... | $.... | $.... | $ ... | $ ... | $.... | $.... | $.... | $.... | $ ... | $.... | $.... | $.... | | |
| 11 | 86 | 144 | 288 | .... | .... | .... | .... | . . | .... | .... | .... | .... | ... | .... | .... | .. | ..... |
| 12 | 83 | 139 | 278 | .... | .... | .... | .... | .... | .... | .... | .... | .... | .... | ... | .. . | ... | .. .. . |
| 13 | 80 | 134 | 268 | 402 | .... | .... | .... | .... | .... | .... | .... | .... | .... | .. . | .... | ... | ..... |
| 14 | 77 | 129 | 268 | 387 | 516 | .... | .... | . .. | .... | .... | .... | .... | .... | .... | .... | 14 | 19 Cents |
| 15 | 74 | 124 | 248 | 372 | 496 | .... | .... | .... | .... | .... | .... | .. . | .... | .... | .... | 15 | 20 " |
| 16 | 72 | 120 | 240 | 360 | 480 | .... | .... | .... | .... | .... | .... | .... | .... | .... | . .. | 16 | 21 " |
| 17 | 69 | 115 | 230 | 345 | 460 | 575 | .... | .... | .... | .... | .... | .... | .... | .... | .... | 17 | 22 " |
| 18 | 67 | 111 | 222 | 333 | 444 | 555 | 666 | ... | .... | .... | ... | .... | .. | .. . | ... | 18 | 23 " |
| 19 | 65 | 108 | 216 | 324 | 432 | 540 | 648 | 756 | .. . | .... | .... | .. .. | .... | .. . | .... | 19 | 23 " |
| 20 | 62 | 104 | 208 | 312 | 416 | 520 | 624 | 728 | 832 | .... | ... | .... | .... | .... | .... | 20 | 24 " |
| 21 | 61 | 101 | 202 | 303 | 404 | 505 | 606 | 707 | 808 | 909 | .... | .... | .... | .... | .... | 21 | 25 " |
| 22 | 59 | 98 | 196 | 294 | 392 | 490 | 588 | 686 | 784 | 882 | .. . | .... | .... | .... | .... | 22 | 26 " |
| 23 | 57 | 95 | 190 | 285 | 380 | 475 | 570 | 665 | 760 | 855 | 950 | .... | .... | .... | .... | 23 | 26 " |
| 24 | 55 | 92 | 184 | 276 | 368 | 460 | 552 | 644 | 736 | 828 | 920 | .... | .... | .... | .... | 24 | 27 " |
| 25 | 53 | 89 | 178 | 267 | 356 | 445 | 534 | 623 | 712 | 801 | 890 | 979 | .... | .... | .... | 25 | 28 " |
| 26 | 52 | 87 | 174 | 261 | 348 | 435 | 522 | 609 | 696 | 783 | 870 | 957 | .... | .... | .... | 26 | 29 " |
| 27 | 50 | 84 | 168 | 252 | 336 | 420 | 504 | 588 | 672 | 756 | 840 | 924 | .... | .... | .... | 27 | 30 " |
| 28 | 49 | 82 | 164 | 246 | 328 | 410 | 492 | 574 | 656 | 738 | 820 | 902 | 984 | .... | .... | 28 | 30 " |
| 29 | 48 | 80 | 160 | 240 | 320 | 400 | 480 | 560 | 640 | 720 | 800 | 880 | 960 | .. . | .. | 29 | 31 " |
| 30 | 46 | 77 | 154 | 231 | 308 | 385 | 462 | 539 | 616 | 693 | 770 | 847 | 924 | .... | .... | 30 | 32 " |
| 31 | 45 | 75 | 150 | 225 | 300 | 375 | 450 | 525 | 600 | 675 | 750 | 825 | 900 | .... | .... | 31 | 33 " |
| 32 | 44 | 73 | 146 | 219 | 292 | 365 | 438 | 511 | 584 | 657 | 730 | 803 | 876 | .... | .... | 32 | 34 " |
| 33 | 42 | 70 | 140 | 210 | 280 | 350 | 420 | 490 | 560 | 630 | 700 | 770 | 840 | .... | .... | 33 | 36 " |
| 34 | 41 | 68 | 136 | 204 | 272 | 340 | 408 | 476 | 544 | 612 | 680 | 748 | 816 | .... | .... | 34 | 37 " |
| 35 | 40 | 66 | 132 | 198 | 264 | 330 | 396 | 462 | 528 | 594 | 660 | 726 | 792 | .... | .... | 35 | 38 " |
| 36 | 38 | 64 | 128 | 192 | 256 | 320 | 384 | 448 | 512 | 576 | 640 | 704 | 768 | .... | .... | 36 | 39 " |
| 37 | 37 | 62 | 124 | 186 | 248 | 310 | 372 | 434 | 496 | 558 | 620 | 682 | 744 | .... | .... | 37 | 40 " |
| 38 | 36 | 60 | 120 | 180 | 240 | 300 | 360 | 420 | 480 | 540 | 600 | 660 | 720 | .... | .... | 38 | 42 " |
| 39 | 34 | 57 | 114 | 171 | 228 | 285 | 342 | 399 | 456 | 513 | 570 | 627 | 684 | .... | .... | 39 | 44 " |
| 40 | 33 | 55 | 110 | 165 | 220 | 275 | 330 | 385 | 440 | 495 | 550 | 605 | 660 | .... | .... | 40 | 45 " |
| 41 | 32 | 53 | 106 | 159 | 212 | 265 | 318 | 371 | 424 | 477 | 530 | 583 | 636 | .... | .... | 41 | 47 " |
| 42 | 31 | 51 | 102 | 153 | 204 | 255 | 306 | 357 | 408 | 459 | 510 | 561 | 612 | 663 | .... | 42 | 49 " |
| 43 | 29 | 49 | 98 | 147 | 196 | 245 | 294 | 343 | 392 | 441 | 490 | 539 | 588 | 637 | .... | 43 | 51 " |
| 44 | 28 | 47 | 94 | 141 | 188 | 235 | 282 | 329 | 376 | 423 | 470 | 517 | 564 | 611 | .... | 44 | 53 " |
| 45 | 27 | 45 | 90 | 135 | 180 | 225 | 270 | 315 | 360 | 405 | 450 | 495 | 540 | 585 | 630 | 45 | 56 " |
| 46 | 26 | 43 | 86 | 129 | 172 | 215 | 258 | 301 | 344 | 387 | 430 | 473 | 516 | 559 | 602 | 46 | 58 " |
| 47 | 25 | 41 | 82 | 123 | 164 | 205 | 246 | 287 | 328 | 369 | 410 | 451 | 492 | 533 | 574 | 47 | 61 " |
| 48 | 24 | 40 | 80 | 120 | 160 | 200 | 240 | 280 | 320 | 360 | 400 | 440 | 480 | 520 | 560 | 48 | 63 " |
| 49 | 23 | 38 | 76 | 114 | 152 | 190 | 228 | 266 | 304 | 342 | 380 | 418 | 456 | 494 | 532 | 49 | 66 " |
| 50 | 21 | 35 | 70 | 105 | 140 | 175 | 210 | 245 | 280 | 315 | 350 | 385 | 420 | 455 | 490 | 50 | 71 " |
| 51 | 20 | 34 | 68 | 102 | 136 | 170 | 204 | 238 | 272 | 306 | 340 | 374 | 408 | 442 | 476 | .... | ..... |
| 52 | 19 | 32 | 64 | 96 | 128 | 160 | 192 | 224 | 256 | 288 | 320 | 352 | 384 | 416 | 448 | ... | . ..... |
| 53 | 18 | 30 | 60 | 90 | 120 | 150 | 180 | 210 | 240 | 270 | 300 | 330 | 360 | 390 | 420 | .... | ..... |
| 54 | 17 | 28 | 56 | 84 | 112 | 140 | 168 | 196 | 224 | 252 | 280 | 308 | 336 | 364 | 392 | .... | ..... |
| 55 | 16 | 27 | 54 | 81 | 108 | 135 | 162 | 189 | 216 | 243 | 270 | 297 | 324 | 351 | 378 | .... | ..... |
| 56 | 15 | 25 | 50 | 75 | 100 | 125 | 150 | 175 | 200 | 225 | 250 | 275 | 300 | .. . | .... | .... | ..... |
| 57 | 14 | 23 | 46 | 69 | 92 | 115 | 138 | 161 | 184 | 207 | 230 | 253 | 276 | .... | .... | .... | ..... |
| 58 | 13 | 22 | 44 | 66 | 88 | 110 | 132 | 154 | 176 | 198 | 220 | 242 | 264 | .... | .... | .... | .. ..... |
| 59 | 12 | 20 | 40 | 60 | 80 | 100 | 120 | 140 | 160 | 180 | 200 | 220 | 240 | .... | .... | .... | ..... |
| 60 | 11 | 18 | 36 | 54 | 72 | 90 | 108 | 126 | 144 | 162 | 180 | 198 | 216 | .... | .... | .... | .. .... |

*One-half benefit first six months; full benefit after six months. Full benefit immediately if death occurs from accident.*

### EXPLANATION OF THE ABOVE TABLE

In the table printed above will be found the amounts of insurance which will be issued at ages 10 next birthday and upward, for the premiums stated in the different columns, on the "Whole Life, Premiums Terminating at Age 70" plan. No policy will be written at any age for a higher premium than is indicated by the above table at that age. For instance, no policy will be written at age 30 for a higher premium than 60 cents.

There are a great many people who would like to secure a policy for an even five hundred dollars and who still want to pay the premiums on the weekly-payment plan. Such a policy as this can be issued on the life of any person whose age is not under 14 nor over 50 years, next birthday, and who is in good health. The table printed above gives the amount of weekly premium that would be required at each age.

Note.—No further premiums payable after the anniversary of the policy next preceding the Insured's seventieth birthday.

Creditor Form

(ORIGINAL)

# Assignment of Policy as Collateral Security for Present and Future Indebtedness.

**In Consideration of**.....DOLLARS

the receipt of which is hereby acknowledged,.....hereby sell, assign, transfer and set over unto.....

.....

of.....in the State of.....and.....

executors, administrators and assigns, as their interest may appear, all .....right, title and interest in and to Policy No.....

issued by **The** **Mutual Life Insurance Company,** subject to all the terms and conditions in said policy contained. The interest of the assignee in the policy hereby assigned shall include any and all indebtedness which I may now or at any time hereafter be owing to the said assignee and which may exist at the time of the settlement of the policy, the remainder of said policy, if any, being unaffected by this assignment.

**Witness**.....hand....and seal.... at.....in the State of.....

this..... day of.....191.....

Signed, Sealed and Delivered
in Presence of

Two Witnesses

.....

.....

.....[L. S.]
Insured sign here.

.....[L. S.]
Beneficiary, if any, sign here.

**N. B.—This Original should be attached to the policy.**

# The Mutual Life Insurance Company

$.....

IN CONSIDERATION of the loan to the undersigned by The Mutual Life Insurance Company on its Policy No.....of the sum of.....Dollars, payable at its office in the city of with interest at the rate of six per cent. per annum, payable annually, and as security for the payment of the same, both principal and interest, the undersigned do..... hereby assign and set over to said The Mutual Life Insurance Company at said Policy issued on the life of the undersigned..... and all dividend additions thereto.

In case of the non-payment of any interest on said loan when due, such interest shall be added to and become a part of the principal of said loan and shall bear interest at the rate aforesaid. If and whenever on any day the amount of such principal together with the interest accruing upon the same shall equal the then cash surrender value of the said policy and dividend additions thereto, if any, the said policy and dividend additions shall thereupon become void without action on the part of said Company and be deemed surrendered in consideration of the cancellation of said loan.

If said policy shall become paid-up insurance, said loan will be continued under the terms hereinbefore provided, but if said policy shall become extended term insurance, the existing indebtedness under said loan shall be adjusted as provided in said policy.

This assignment may be terminated at any time upon payment in cash of the principal and interest of said loan.

Payment of this loan, or of any part not less than twenty (20) dollars, may be made at any time.

IN WITNESS WHEREOF, the undersigned ha.....executed these presents the.....day of....., A. D. 191.....

.....(SEAL)
(Insured)

Signed in the presence of:

WITNESSES

Post Office Address

.....
(Street and Number)
.....
(City) (State)

.....(SEAL)

.....(SEAL)

X

(ORIGINAL)

## RELEASE OF INTEREST

The consideration for which polic..... No.....

upon the life of.....

issued by THE MUTUAL LIFE INSURANCE COMPANY was/were assigned to me/us having been fully satisfied and discharged, I/we being of legal age, hereby release all right, title and interest in said polic.....

Witness my/our hand..... and seal..... at.....in the State of.....

this.....day of.....19.....

Signed, Sealed and Delivered
in Presence of

Two Witnesses

..... [L. S.]

..... [L. S.]

N. B.—This Original should be attached to the policy.

*NOTE—DUPLICATE OF THIS IS FILED IN HOME OFFICE.*

XI

## SURRENDER OF POLICY

.....191....

FILL IN PLACE AND DATE

**For a Valuable Consideration,** the receipt whereof is hereby acknowledged, we surrender to **The Mutual Life Insurance Company,** Policy No.....in said company on the life of.....and all claims thereunder, and request that there be issued in lieu thereof a policy of like amount on the.....plan, bearing date.....in favor of.....my....., with.....privilege to change the beneficiary.

We hereby declare that no proceedings in bankruptcy have ever been instituted by or against us and the above change is now made and accepted upon such declaration.

WITNESS:

.....

.....

.....

To be signed in person by each of the parties having an interest in the policy, including insured, beneficiary and assigns, if any and each signature to be duly witnessed

.....

.....

.....

## XII

## PROOF OF DEATH (CLAIMANT'S STATEMENT)

*Policy No*.....*Date of Policy*.....*Am't Claimed, $*.....

**Every Question in These Blanks Must Be Distinctly and Fully Answered, and the Company Reserves the Right to Require Further Information Should it Be Deemed Necessary.**

**Before Making Out This Statement, Read Carefully the Instructions on Page 4 of This Blank.**

| | |
|---|---|
| 1.—*a*. Names of Claimants in full. (Write names legibly.)<br>*b*. Age of Claimants.<br>*c*. Residence of Claimants. (P. O. Address.)<br>**(If any of the Claimants are minors, certified copy of Letters of Guardianship must be furnished with the proofs of death.)** | *a*. .....<br>.....<br>.....<br>*b*. .....<br>*c*. ..... |
| 2.—*a*. Name of Deceased in full.<br>*b*. Legal Residence. | *a*. .....<br>*b*. ..... |
| 3. Occupation. { *a*. When policy was issued.<br>*b*. At time of death. | *a*. .....<br>*b*. ..... |
| 4.—*a*. Place of Birth.<br>*b*. Date of Birth.<br>*c*. State source from which date of birth was obtained. | *a*. .....<br>*b*. .....<br>*c*. ..... |
| 5.—*a*. Place of Death.<br>*b*. Date of Death. | *a*. .....<br>*b*. *Year*,.....*Month*,.....*Date*,.....*Hour*,.....*A. M. or P. M.* |
| 6.—*a*. How long have you been acquainted with the deceased?<br>*b*. In case of widow, state how long you have been married to the deceased. | *a*. .....<br>*b*. ..... |
| 7.—Have you seen and identified the body of the deceased? | |
| 8.—Name and residence of every physician who attended or prescribed for the deceased during the year prior to death. | ..... |
| 9.—Is the said policy in your possession? | ..... |
| 10.—*a*. Has the policy ever been assigned? If so, to whom and when?<br>*b*. Are there any endorsements on the policy, other than those made by the Company? If so, furnish a sworn copy. | *a*. .....<br>*b*. ..... |
| 11.—Was a Coroner's inquest held? If so, furnish the Company with a certified copy of the verdict. | |
| 12.—*a*. In what capacity, or by what title, do you make the claim?<br>*b*. Are you legally entitled to receive the entire amount payable on the Policy? | *a*. .....<br>*b*. ..... |
| 13.—Was the deceased, at the time of his death, insured in any other Companies? If so, in what Companies, and for what amount in each Company? | ..... |
| 14.—Are there any proceedings in bankruptcy now pending against the insured or any of the claimants? | |

Having been duly sworn,.....hereby depose and say that the answers to the above questions are true, and full, to the best of.....knowledge and belief.

Witness.....hand.....this.....day of.....*19* .....

*State of* .....
} ss.
*County of* .....

On this.....day of.....*19*....., personally appeared before me the above named

.....

to me known, who subscribed the foregoing statement in my presence and made oath that the answers to the questions therein made by.....are true and full, to the best of.....knowledge, recollection and belief.

.....

**Each affidavit must be made before a notary public or other officer duly authorized to administer oaths and his official seal attached, or, if he have no seal, his authority and the genuineness of his signature must be attested by the clerk of a court of record.**

XII—*Continued*

## (B) STATEMENT OF THE UNDERTAKER

The Undertaker's Certificate is to be executed by the undertaker or sexton who interred the deceased. If necessary, it may, with slight change, be executed instead by the clergyman who officiated at the interment.

*In Proof of the Death of*.....

| | |
|---|---|
| 1.—*a.* Name of Deceased.<br>*b.* Residence and occupation.<br>*c.* Age of deceased. | *a.* .....<br>*b.* .....<br>*c.* Years..... Months..... Days..... |
| 2.—*a.* Were you personally acquainted with the deceased?<br>*b.* If so, state for how long.<br>*c.* Do you know the body interred by you to be that of the person described in the accompanying statement of the claimant in this case? | *a.* .....<br>*b.* .....<br>*c.* ..... |
| 3.—Place and Date of Death. | Place..... Date..... |
| 4.—Place and Date of Interment. | Place..... Date..... |

Having been duly sworn, I hereby depose and make oath that the answers to the foregoing questions are true, to the best of my knowledge and belief.

Dated at ....., this.....day of.....19.....

*State of* .....<br>*County of* ..... } ss.

.....

On this.....day of.....19....., personally appeared before me the above named .....to me known, who, being by me duly sworn, deposed that the answers to the above questions are full and true, to the best of his knowledge, information and belief, and subscribed the same in my presence.

.....

## (C) STATEMENT OF AN ACQUAINTANCE

This Certificate is to be executed by some responsible householder intimately acquainted with the deceased, who has seen the body, and is not interested in the claim.

*In Proof of the Death of*.....

| | |
|---|---|
| 1.—How long have you known the deceased? | ..... |
| 2.—Place and date of Death. | Place..... Date..... |
| 3.—Have you seen the body of the person deceased, and is it, to your knowledge, the body of the person described in the above named Policy of Insurance? | ..... |
| 4.—State all the facts within your knowledge relating to the cause of death. | ..... |

Having been duly sworn, I hereby depose and say that the answers to the above questions are true and full, to the best of my knowledge and belief; and that I have no interest in the above Policy.

Dated at....., this.....day of.....19.....

*State of* .....<br>*County of* ..... } ss.

.....

P. O. Address.....

On this.....day of.....19....., personally appeared before me the above named .....to me known, who, being by me duly sworn, deposed that the answers to the above questions are full and true, to the best of his knowledge, information and belief, and subscribed the same in my presence.

.....

**Each affidavit must be made before a notary public or other officer duly authorized to administer oaths and his official seal attached, or, if he have no seal, his authority and the genuineness of his signature must be attested by the clerk of a court of record.**

## XII—*Continued*

## ATTENDING PHYSICIAN'S STATEMENT (D)

The Attending Physician's Certificate is to be executed by the physician attending the deceased in his last illness. If more than one physician were employed, the certificate of each must be obtained. **The entire certificate must be in the handwriting of the physician.**

*In Proof of the Death of*.....

| | |
|---|---|
| 1.—How long have you practiced as a physician, and where did you receive your medical education? | |
| 2.—Name of deceased.<br>Residence.<br>Occupation. | |
| 3.—How long have you been acquainted with the deceased? | |
| 4.—Were you the attending physician of deceased before last sickness? If so, when, how long, and for what disease did you prescribe, or were consulted? *Give full and definite answers.* | |
| 5.—Were you the attending physician of deceased during last sickness, and up to the time of death? | |
| 6.—Date of your first prescription? | |
| 7.—Date of your last visit? | |
| 8.—*a.* Date of death.<br>*b.* Duration of last illness. | *a.*<br>*b.* |
| 9.—*a.* State the remote cause of death; if from disease, give the predisposing causes, date of the first appearance of its symptoms, its history, and the symptoms present during its progress. | *a.* |
| *b.* State the immediate cause of death. | *b.* |
| *c.* If death was not due to disease, state whether it was caused by suicide, accident or any other agency. Give full particulars. | *c.* |
| *d.* Was a *Post-Mortem* examination made; by whom, and with what results? | *d.* |
| *e.* Had deceased any other disease, acute or chronic, or had he ever had any injury, infirmity or surgical operation? | *e.* |
| *f.* Was there anything in the habits, or mode of life or residence of deceased, predisposing him to disease? | *f.* |
| *g.* State the apparent age of deceased. | *g.* |
| 10.—State whether, in your opinion, the disease or death was superinduced by intemperance of any kind. | |
| 11.—Did the deceased have any hereditary predisposition to the disease of which he died? If so, please state the particulars. | |

Having been duly sworn, I hereby depose and say that the statements in the foregoing answers are true, and full, to the best of my knowledge and belief; and that there are no material facts in the case which are not disclosed.

Dated at ..... this .....day of.....19.....

.....
Attending Physician.

*State of* .....
*County of* ..... } ss.

P. O. Address.....

On this.....day of.....19....., personally appeared before me, the above named ..... to me known as a physician in regular standing, who being by me duly sworn, deposed that the answers to the above questions are full and true, to the best of his knowledge, information and belief, and subscribed the same in my presence.

.....

Each affidavit must be made before a notary public or other officer duly authorized to administer oaths and his official seal attached, or, if he have no seal, his authority and the genuineness of his signature must be attested by the clerk of a court of record.

XII—*Continued*

LEAVE THIS PAGE BLANK.

The Mutual Life Insurance Co.

**PROOFS OF DEATH**

*POLICY NO.* .....

*Life of* .....

*Amount $*.....

*Received* .....19.....

*Date of Insurance*.....19.....

*Date of Death*.....19.....

*Date of Payment*.....

*Age*..... *Kind*.....

*Last Premium Paid*.....

*Benefit of* .....

*Insured at* .....

*Resided at* .....

*Died at* .....

*Residence of Claimant*.....

*Agent* .....

*Medical Examiner* .....

*Proofs sent in by*.....

**SETTLEMENT**

*Premium Notes* .....$.....

*Interest on do* .....

*Automatic Loan* .....

*Interest on do* .....

*Deferred Premium* .....

*Annuity Premiums* .....

*Option Settlements* .....

*Policy Loan No.* .....

*Interest on do* .....

*Cash* { *Pol.* $..... *Add.* $..... *Div.* $..... } .....$.....

*Total $*.....

*Paid through* .....

1946

LEAVE THIS PAGE BLANK.

(DO NOT WRITE OR PASTE ANYTHING ON THIS PAGE.)

.....19.....

*The Proofs of the Claim under Policy No*.....*insuring the life of*

.....*for* .....

*Dollars, have been duly examined, and settlement thereof is hereby authorized.*

*CORRECT*

.....
*Supt. Claims.*

.....
*President.*

.....
*Medical Director.*

## INSTRUCTIONS

### READ CAREFULLY

**If the policy bears date previous to June 1, 1871, furnish a copy of the written portion of the policy, and state the number of the form upon which it is written (this can be found under the Revenue Stamp).**

The Claimant's Certificate is to be executed by the person legally entitled to receive the money, who must state by what title he or she makes the claim, whether as the beneficiary named in the policy, or as executor or administrator, or as guardian, or other legal representative of a minor, or as a trustee, or as assignee. **In case of assignment,** interest must be proved, and a copy of the assignment furnished. **Executors, administrators and guardians** must send certified copies of their appointment and certificate of qualification. Trustees must exhibit their authority. Where policies are payable to heirs evidence as to heirship must be submitted for which purpose blanks will be furnished.

Every question must be distinctly and fully answered, all being legibly written in ink. The company reserves the right to ask any further questions necessary under the circumstances of any particular case.

All papers in a foreign language must be accompanied by a sworn translation, and if the oath be administered in a foreign country, the official character of the person administering the same, or of the clerk or other officer of a court certifying thereto must be authenticated by a Consul or Minister of the United States, residing in such foreign country.

XIII

PROOF OF DEATH (AGENT'S STATEMENT)

(E)

# The Mutual Life Insurance Co.

*Policy No.*_____ AGENT'S STATEMENT $_____

*Date of Policy*_____

IT IS IMPORTANT THAT AGENTS SHOULD FILL OUT THIS BLANK WITH CARE, as the Company relies much upon the answers given by the Agent to the questions as propounded. When they cannot answer the questions from personal knowledge, they are requested to do so upon their best knowledge, information or belief, stating the grounds of such knowledge, information or belief.

Agents can greatly facilitate the settlement of Claims if they will see, before forwarding proofs, that all blanks have been properly filled and every question answered; also that the instructions have been strictly carried out.

In many cases a letter from the Agent, giving the information in his possession regarding the claim, will clear up doubtful points and prevent delay in settlement.

| | |
|---|---|
| 1.—*a.* Name of Deceased.<br>*b.* Residence.<br>*c.* Occupation. | *a.* .....<br>*b.* .....<br>*c.* ..... |
| 2.—Place and Date of Death. | Place ..... Date ..... |
| 3.—Have you seen the body of the person deceased, and is it to your knowledge the body of the person described in the above named policy of insurance? | |
| 4.—If you have not seen and identified the body, have you satisfied yourself by other evidence, and if so, what, as to the identity of the decedent, with the person insured under the above policy? | ..... |
| 5.—State all the facts and circumstances within your knowledge relating to the cause of death. | ..... |
| 6.—Is there any circumstance within your knowledge, information or belief, or have any facts come to your knowledge, inconsistent with the statements made in the application of the insured? | ..... |
| 7.—Had the deceased, within your knowledge, violated any of the conditions of said Policy of Insurance? | |
| 8.—*a.* Give date of last Premium payment on said policy.<br>*b.* Amount of last premium paid.<br>*c.* State whether Annual, Semi-Annual or Quarterly. | *a.* .....<br>*b.* Gross $..... Dividend $..... Net $.....<br>*c.* ..... |
| 9.—Do you know of anything invalidating the right of the parties in interest to recover the amount insured by said Policy? | |
| 10.—☞ **Have you examined the proofs, and do they conform to the instructions on the back of the proof blanks?** | |
| 11.—Do you believe all the statements in the certificates, marked A, B, C and D, to be true and correct? | |

*Dated at*_____ *this*_____ *day of*_____ *19*____

_____
*Agent.*

*Countersigned by*_____
*General Agent.*

# FRATERNAL BENEFIT SOCIETIES—VALUATION RESULTS AS OF DECEMBER 31, 1919

This leaflet shows the important results of valuation in tabular form. The required reserves (being the amount of assets each society should have on hand in order to mature all future death losses in full without any change in the rates of assessment) are shown in column 4.

The assets on hand available for the payment of future death losses are shown in column 5. The amount is obtained by deducting from the total admitted assets and liens and loans on certificates valued according to the prospective method the following items: balances in expense funds, the excess of the liabilities of the expense funds over the actual balances in such funds, the total liabilities of the benefit funds, and the balances in special funds when the benefits payable from such funds are not valued.

The ratios % of actual assets to required reserves are shown in column 6. These ratios (expressed in dollars) show the actual amount of assets the societies have on hand for each $100.00 of assets which they should have on hand.

The ratios % of assets (actual and contingent) to liabilities (actual and contingent) are shown in column 7. See item 40 of the convention form of valuation report blank.

CAUTION! The valuation results are not to be used as a test of the financial solvency of a society. The purpose is to indicate what will be necessary in the future in the way of increased contributions from the members. If a society shows a ratio per cent of less than 100%, the valuation results indicate that the rates of assessment will have to be increased at some time in the future. Under the Wisconsin laws, all societies must reserve the right to levy additional assessments.

PLATT WHITMAN, Commissioner of Insurance

| Name of Society | (1) Present mid-year value of benefits promised | (2) Present mid-year value of future net contributions | (3) Net value of certificates valued on tabular basis | (4) Total net value of outstanding certificates (required reserve) | (5) Assets available for payment of future death claims | (6) Ratio % of actual assets (col 5) to required reserve (col. 4) | (7) Ratio % of assets (actual and contingent) to liabilities (actual and contingent) |
|---|---|---|---|---|---|---|---|
| WISCONSIN SOCIETIES | | | | | | | |
| Aid Associations for Lutherans | | | $1,110,670 83 | (a)$1,296,260 43 | $1,375,696 05 | (a)106.1 | (a)106.1 |
| American Catholic Union | $311,800 67 | $139,923 46 | | 171,877 21 | 49,033 54 | 28.5 | 60.7 |
| Beavers National Mutual Benefit | | | 23,457 90 | 23,457 90 | 25,554 54 | 109.0 | 106.5 |
| Beavers Reserve Fund Fraternity | 9,627,850 45 | 2,838,799 71 | | 6,788,050 74 | 1,377,613 56 | 20.3 | 44.3 |
| Beavers Reserve Fund Fraternity (Trustee Nat. Fraternal League) | | | 751 17 | 751 17 | 246 90 | 32.8 | 70.2 |
| Catholic Family Protective Assn | | | 224,968 57 | 224,968 57 | 261,425 29 | 116.2 | 116.0 |
| Catholic Knights of Wisconsin | | | 4,871,303 99 | 4,871,308 99 | 941,778 46 | 19.3 | 19.8 |
| Concordia Mutual Aid Society of Wisconsin | | | 11,306 75 | 11,306 75 | 11,530 87 | 102.0 | 101.1 |
| Employes Mutual Benefit Association | | | 21,568 70 | 21,568 70 | 27,543 64 | 127.8 | 113.9 |
| Equitable Fraternal Union | 1,173,416 12 | 1,025,429 56 | | (a)2,818,462 34 | 2,978,213 49 | (a)105.7 | (a)103.0 |
| Farmers Life Insurance Association | 922,826 67 | 321,918 85 | 24,810 39 | 625,718 71 | 99,428 13 | 15.8 | 44.6 |
| Fraternal Reserve Association | | | 170,837 86 | (a)473,826 59 | 484,351 41 | (a)102.3 | (a) 102.5 |
| G. U. G. Germania | 3,331,023 80 | 1,237,508 37 | | 2,093,515 43 | 408,714 25 | 19.5 | 49.5 |
| Knights of the White Cross | | | 62,106 31 | 62,106 31 | 6,934 08 | 11.1 | 11.1 |
| Polish Association of America | | | 713,435 59 | 713,435 59 | 115,481 35 | 16.1 | 16.6 |
| Polish Federation of America | | | 17,372 40 | 17,372 40 | 22,038 04 | 126.8 | 126.6 |
| Scandinavian-American Fraternity | 1,951,935 33 | 794,788 48 | 2,844 83 | 1,160,041 68 | 199,372 05 | 17.1 | 50.8 |
| South Slavic Benevolent Union-Sloga | | | 32,007 72 | 32,007 72 | 33,134 82 | 103.5 | 103.5 |
| United Aid of Sheboygan | | | 71,270 33 | 71,270 33 | 26,872 77 | 37.7 | 37.7 |
| United Danish Societies of America | | | 49,159 37 | (a)83,182 77 | 83,872 82 | (a)100.8 | (a)100.8 |
| United Order of Foresters | | | 937 03 | (a)298,110 10 | 350,735 36 | (a)117.6 | (a)116.1 |
| Wisconsin Widow and Orphan Ben. Society | No valuation required. | Assessments payable at death only. | | | | | |
| Total Wisconsin Societies | $17,318,903 04 | $6,358,268 43 | $7,408,815 24 | $21,787,330 10 | $8,879,571 42 | 40.8 | |
| SOCIETIES OF OTHER STATES | | | | | | | |
| American Insurance Union | | | $1,013,350 00 | $1,013,350 00 | $1,081,979 22 | 106.7 | 104.0 |
| Ancient Order United Workmen of Iowa | | | 1,143,088 00 | 1,143,088 00 | 1,207,510 14 | 105.5 | 103.5 |
| Benefit Association of Railway Employes | | | 7,134 08 | 7,134 08 | 11,244 42 | 157.5 | 101.8 |
| Brith Abraham (Independent Order) | No valuation required. | Foreign society issuing no certificate in excess of $500 and licensed in Wis. before 1-1-'11 | | | | | |
| Brith Abraham (U. S. Grand Lodge) | No valuation required. | Foreign society issuing no certificate in excess of $500 and licensed in Wis. before 1-1-'11 | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Brotherhood of American Yeomen | 116,521,392 44 | 35,485,074 95 | | 81,036,317 49 | 3,082,000 97 | 3.8 | 33.8 |
| Catholic Order of Foresters | 59,414,271 97 | 33,526,720 78 | | 25,887,551 19 | 7,893,796 86 | 30.5 | 69.9 |
| Columbian Circle | 6,148,980 26 | 5,091,822 69 | | 1,057,157 57 | 863,899 30 | 81.8 | 96.9 |
| Court of Honor | 9,456,102 29 | 7,606,503 19 | | 1,849,599 10 | 2,584,370 73 | (4)139.5 | (4)105.3 |
| Danish Brotherhood in America | 5,787,474 38 | 3,435,136 44 | | 2,352,337 94 | 2,506,997 21 | (8)106.6 | (8)102.7 |
| Daughters of Norway | No valuation required. | Foreign society issuing | no certificates in excess | of $500 and licensed in | Wis. before 1-1-'11 | | |
| Degree of Honor (Superior Lodge) | (1) 4,085,181 69 | 1,951,730 60 | | 2,133,451 69 | 697,977 78 | 32.7 | 64.8 |
| | (2) 3,354,740 65 | 2,616,397 49 | 12,509 17 | 756,851 73 | 884,751 02 | 117.1 | 103.8 |
| Fraternal Brotherhood | 8,999,244 00 | 4,376,446 00 | | 4,622,798 00 | 1,454,744 36 | 31.0 | 66.3 |
| Grand Carniolian Slovenian Catholic Union | 3,496,647 47 | 2,393,593 46 | | 1,103,054 01 | 610,348 09 | (5)55.3 | (5) 86.1 |
| Independent Western Star Order | No valuation required. | Foreign society issuing | no certificates in excess | of $500 and licensed in | Wis. before 1-1-'11 | | |
| Knights of Columbus | | | 7,796,617 00 | 7,796,617 00 | 9,531,632 94 | 122.2 | 121.7 |
| Knights of Pythias (Ins. Dept.) | | | 9,995,717 56 | 9,995,717 56 | 10,619,126 42 | 106.5 | 106.5 |
| Ladies Catholic Benevolent Association | 32,313,427 01 | 11,108,786 00 | | 21,204,640 21 | 3,889,965 37 | 18.4 | 46.7 |
| Loyal American Life Association | 46,979 35 | 49,293 98 | 538,131 73 | 540,446 36 | 445,249 04 | 82.3 | 85.9 |
| Lutheran Mutual Aid Society | 3,864,128 96 | 1,415,766 89 | 19,944 65 | 2,468,306 72 | 283,559 36 | 11.5 | 44.2 |
| Luther Union | | | 12,155 75 | 12,155 75 | 18,550 91 | 152.8 | 152.0 |
| Maccabees | 89,629,551 64 | 54,327,245 43 | | 35,302,306 21 | 20,541,653 52 | 58.2 | 83.8 |
| Masonic Mutual Life Association | | | 2,109,061 15 | 2,109,061 15 | 2,160,449 42 | 102.4 | 102.0 |
| Modern Brotherhood of America | (6) 1,276,035 65 | 192,188 37 | | 1,073,847 28 | —23,720 77 | 0.0 | 16.2 |
| | (7) 22,890,315 41 | 13,888,297 03 | | 9,002,018 38 | 4,053,114 18 | 45.0 | 81.3 |
| Modern Woodmen of America | 635,822,969 33 | 346,857,320 24 | | 288,945,649 09 | 10,800,933 78 | (8)3.7 | (8)56.4 |
| Mystic Workers of the World | 46,195,747 40 | 12,395,434 28 | | 33,800,313 12 | 820,106 16 | 2.4 | 28.8 |
| National Croation Society in the U. S. A | 9,846,476 61 | 8,518,936 38 | | 1,327,540 23 | 853,358 29 | (8)64.3 | (8)95.3 |
| National Fraternal Society of the Deaf | | | 156,533 26 | 156,533 26 | 206,865 03 | 131.6 | 130.6 |
| National Slovak Society of U. S. A | 10,176,151 07 | 6,557,647 54 | | 3,618,503 53 | 1,282,134 49 | (8)35.4 | (8)77.3 |
| National Union Assurance Society | (1) 22,314,741 00 | 20,083,117 00 | | 2,231,624 00 | 666,819 00 | 29.9 | 93.0 |
| | (2) | | 362,145 00 | 362,145 00 | 421,629 00 | 116.3 | 110.0 |
| Order of Mutual Protection | 1,758,564 00 | 930,804 00 | | 827,760 00 | 573,211 76 | 69.2 | 85.6 |
| Order of United Commercial Travelers | No valuation required. | Grants accident benefits only. | | | | | |
| Plattdeutsche Grot Gilde | No valuation required. | Foreign society issuing | no certificates in excess | of $500 and licensed in | Wis. before 1-1-'11 | | |
| Polish National Alliance of the U. S. of N. A | 23,515,771 43 | 16,755,312 51 | | 6,860,458 92 | 4,241,788 07 | (8)62.3 | (8)89.5 |
| Progressive Order of the West | No valuation required. | Foreign society issuing | no certificates in excess | of $500 and licensed in | Wis. before 1-1-'11 | | |
| Railway Mail Association | No valuation required. | Grants accident benefits only | | | | | |
| Royal Arcanum | 110,800,643 60 | 101,159,682 00 | | 9,640,361 00 | 7,080,541 35 | 73.5 | 97.7 |
| Royal League | 10,961,124 69 | 8,478,890 53 | | 2,482,234 16 | 2,508,218 89 | 100.8 | 100.2 |
| Royal Neighbors of America | 132,661,989 40 | 91,664,498 00 | | 40,997,491 40 | 2,229,630 31 | (8)5.4 | (8)70.9 |
| Slovenic National Benefit Society | 3,681,929 00 | 3,334,633 00 | | 347,296 00 | 434,649 17 | 125.0 | 102.3 |
| Sons of Norway | | | 227,769 80 | (3)235,068 70 | 287,021 11 | (4)122.1 | (4)122.0 |
| Supreme Tribe of Ben Hur | 19,842,411 38 | 16,316,263 29 | | 3,526,148 09 | 2,113,737 31 | 59.9 | 92.9 |
| Travelers Protective Association of America | No valuation required. | Grants accident benefits only | | | | | |
| Western Bohemian Fraternal Association | 6,547,311 71 | 3,932,893 84 | | 2,614,417 87 | 902,306 12 | 34.5 | 73.9 |
| Woman's Benefit Association of the Maccabees | (1) 26,612,027 49 | 9,519,414 85 | | 17,092,612 64 | 11,292,887 87 | 66.1 | 78.3 |
| | (2) 27,469,049 15 | 24,995,790 72 | | 2,473,258 43 | 2,596,921 35 | 105.0 | 100.5 |
| Women's Catholic Order of Foresters | 32,196,323 93 | 18,336,629 66 | | 13,859,694 27 | 3,380,962 86 | 24.4 | 67.6 |
| Woodmen Circle | 82,562,595 65 | 76,507,927 97 | | 6,054,667 68 | 7,568,918 53 | (8)125.0 | (8)101.6 |
| Woodmen of the World | 384,598,876 71 | 222,463,511 81 | | 162,135,364 90 | 165,934,949 07 | (8)102.4 | (8)101.0 |
| Total (Societies of Other States) | $1,954,858,575 52 | $1,166,296,710 32 | $23,394,157 15 | $811,696,649 71 | $300,609,940 76 | 37.0 | |
| Total (All Licensed Fraternals) | $1,972,177,478 56 | $1,172,655,078 75 | $30,802,972 39 | $833,783,979 81 | $309,489,512 18 | 37.1 | |

Note.—See cover of leaflet for a detailed explanation of the valuation figures.

(1)Inadequate rate class. (2)Adequate rate class. (3)Includes accumulations on certificates on non-tabular rates subject to individual increase under the by-law provisions conforming to section 1959 (22m) Wis. Statutes. (4)Old certificates were valued on the "Accumulation Basis." The assessments on the individual non-tabular rate certificates will be gradually increased in the future when the individual credits on such certificates are exhausted. (5)Admitted under Section 1958 (19), Wisconsin Statutes. (6)Non-rerated class. (7)Rerated class. (8)Increase in ratio owing to change in rates.

XV

## SUMMARY OF OPERATIONS OF WAR RISK INSURANCE BUREAU
(LIFE)

June 30, 1920.

| | *Policies* | *Amount* |
|---|---|---|
| Term insurance (temporary) policies issued | 4,617,593 | $40,155,148,000 |
| Terminated by expiry | 125,110 | 1,141,438,000 |
| Revoked | 7,100 | 58,589,000 |
| Converted policies issued | 152,979 | 511,821,500 |
| To officers | 19,479 | |
| To enlisted men | 133,500 | |

Average size of converted policies, $3,346.

Converted policies terminated by death and disability, 378,000

Ratio of death losses to American Experience Table, 40 per cent.

Classification of converted policies issued:

| | *Policies* | *Amount* |
|---|---|---|
| Ordinary Life | 17,462 | $ 77,986,000 |
| 20-Payment Life | 45,208 | 182,830,500 |
| 30-Payment Life | 4,184 | 19,859,500 |
| 20-year Endowment | 17,011 | 168,276,000 |
| 30-year Endowment | 8,925 | 35,353,500 |
| Endowment at age 62 | 6,189 | 27,516,000 |
| Total | 152,979 | $511,821,500 |

XVI

ACCIDENT AND HEALTH POLICY

# TEN DOLLAR ACCIDENT AND SICKNESS POLICY"

**Paying indemnity for Loss of Life by Accidental Means as provided by Part V and for loss of Life, Limb, Limbs or Sight by Accidental Means as Provided in Part I, and for Loss of Time by Accidental Means, and Sickness, and Indemnity for Certain Fractures and Identifying Service, to the extent herein provided.**

***MAXIMUM DEATH BENEFIT***
***Under Part I***
***$7500.00***

***MAXIMUM WEEKLY ACCIDENT INDEMNITY***
***Under Part II***
***$50.00***

**No.**_____

***WEEKLY SICKNESS INDEMNITY***
***$25.00***

# Casualty Company

(HEREINAFTER CALLED THE COMPANY)

**In Consideration of** the statements in the application, a copy of which is endorsed hereon and made part hereof, and **OF TEN DOLLARS ($10.00) PREMIUM**

**Hereby Insures** .....

subject to all the provisions and limitations herein contained, for the term of **ONE YEAR** from noon, standard time of the day and at the place this policy is dated, against the effects of **BODILY INJURIES** caused directly, solely and independently of all other causes by External, Violent and Accidental means, which bodily injuries or their effects shall not be caused wholly or in part, directly or indirectly, by any disease, defect or infirmity, and which shall from the date of the accident result in continuous disability and also against the effects of **SICKNESS**, as follows:

## ACCIDENT BENEFITS

| PART I | Value First Year Under Part I | Annual Increase Under Part I | Value After Fifth Year Under Part I |
|---|---|---|---|
| For Loss of Life ..... | $5,000.00 | $500.00 | $7,500.00 |
| For Loss of Both Eyes ..... | 3,500.00 | 350.00 | 5,250.00 |
| For Loss of Both Hands ..... | 3,500.00 | 350.00 | 5,250.00 |
| For Loss of Both Feet ..... | 3,500.00 | 350.00 | 5,250.00 |
| For Loss of One Hand and One Foot ..... | 3,500.00 | 350.00 | 5,250.00 |
| For Loss of One Hand ..... | 875.00 | 87.50 | 1,312.50 |
| For Loss of One Foot ..... | 875.00 | 87.50 | 1,312.50 |
| For Loss of One Eye ..... | 375.00 | 35.00 | 550.00 |

Resulting within thirty days from date of accident solely from such injuries, but only when such injuries are sustained while actually riding as a passenger in a place regularly provided for the transportation of passengers only, within a railroad car, elevated subway or interurban railroad car, street car or steamboat, provided by a common carrier for passenger service by reason of the wrecking of any such car or steamboat; or

PART II — FOR LOSS OF TIME—FIFTY DOLLARS ($0.00) PER WEEK

Not exceeding ten consecutive weeks if injury sustained in the manner specified in Part I shall not cause any of the Losses in said Part I mentioned, but shall from the date of the accident continuously and wholly prevent the Insured from attending to any and every kind of business or labor

## WEEKLY INDEMNITY

PART III. — FOR LOSS OF TIME—TWENTY-FIVE DOLLARS $(25.00) PER WEEK

Not exceeding ten consecutive weeks, if such injuries shall from date of accident continuously and wholly prevent the Insured from attending to any and every kind of business or labor, but only when such injuries are sustained in the manner specified in Clauses 1 to 16 of this Part III.

1. **WHILE ACTUALLY RIDING AS A PASSENGER IN A PLACE** regularly provided for the transportation of passengers only, within a railroad car, elevated, subway or interurban railroad car, street car or steamboat, provided by a common carrier for passenger service; or

2. **WHILE A PASSENGER WITHIN AN ELEVATOR** provided for passenger service only; or

3. **BY THE BURNING OF A DWELLING, HOTEL, OFFICE BUILDING, THEATRE, SCHOOL, CHURCH, LODGE ROOM, CLUB HOUSE, STORE OR BARN,** in which the Insured may be burned by fire or suffocated by smoke, provided the Insured shall not be assisting or acting as a watchman, policeman, or a volunteer or paid fireman; or

4. **WHILE WALKING ON A PUBLIC HIGHWAY,** by being injured by actual contact with a bicycle or any moving conveyance or vehicle, provided the Insured is not or has not been employed or engaged on or about the conveyance or vehicle or is not stopping or attempting to stop a runaway; or

5. **WHILE RIDING WITHIN A PRIVATE AUTOMOBILE,** not being used for any business purpose or any work whatsoever and provided that the Insured shall not be a hired operator thereof (but this exception shall not apply to any physician or surgeon then employed in the practice of his profession or any commercial traveler or buyer selling or buying goods from sample for future delivery only, collectors of accounts, or regularly licensed real estate and insurance agents in their pursuit of business); and only in case of accident which shall materially injure the automobile; or

6. **WHILE RIDING UPON A BICYCLE** (not a motorcycle) and caused solely and directly by reason of a collision with another bicycle or any moving conveyance; or

7. **WHILE RIDING UPON A MOTORCYCLE** and caused solely and directly by reason of a collision with any moving conveyance, except another motorcycle, and not being used for any business purpose or any work whatsoever (but this exception shall not apply to any physician or surgeon then employed in the practice of his profession, or any commercial traveler or buyer selling or buying goods from sample for future delivery only, collectors of accounts, or regularly licensed real estate and insurance agents in their usual pursuit of business); or

8. **AT THE HANDS OF ANY BURGLAR, HIGHWAYMAN OR ROBBER** when robbing the Insured by force; or

9. **BY THE EXPLOSION OF A STEAM, STATIONARY, LOCOMOTIVE, OR MARINE BOILER,** when such explosion causes destruction of such boiler; or

10. **BY A REGULARLY LICENSED PHYSICIAN, SURGEON, DENTIST, UNDERTAKER OR NURSE** accidentally cutting or wounding himself while holding an autopsy or performing a surgical operation and simultaneously therewith becoming inoculated with poison; or

## XVI—*Continued*

**11. WHILE RIDING WITHIN A CONVEYANCE** drawn by horse power, provided that the Insured shall not then be a hired driver thereof nor be riding or driving in or upon any conveyance containing any merchandise or used for any business purpose or any work whatsoever (but this exception shall not apply to any physician or surgeon then employed in the practice of his profession or any commercial traveler or buyer selling or buying goods from sample for future delivery only) and only in case of an accident which shall materially injure the conveyance; or

**12.** By being **KICKED BY A HORSE OR GORED BY A BULL OR COW**; or

**13. WHILE GETTING ON OR OFF OR BEING ON THE STEP OR PLATFORM OF ANY CONVEYANCE** specified in Part I; or

**14. WHILE ACTIVELY ENGAGED IN FARMING,** by actual contact with and while operating a **THRESHING, MOWING, REAPING or BINDING MACHINE, HARROW or PLOW**; or

**15. BY BEING STRUCK BY LIGHTNING, CYCLONE,** or **TORNADO,** as defined by the United States Weather Bureau; or

**16. WHILE WALKING ON A PUBLIC STREET OR SIDEWALK,** by being struck by a falling sign-board, awning, brick, stone, or other debris falling from a building (except buildings in process of construction, repairs or demolition

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**PART IV**

### FRACTURE OF BONES BY ANY ACCIDENT

**FOR LOSS THROUGH THE COMPLETE FRACTURE OF ANY BONE IN THIS PART MENTIONED BY ANY ACCIDENT IN OR OUT OF BUSINESS,** except if covered under Parts I, II or III, as follows:

| | | | | | |
|---|---|---|---|---|---|
| Skull | $150.00 | Spine, Vertebrae | $100.00 | Patella, knee bone | $50.00 |
| Pelvis, haunch bone | 150.00 | Scapula, shoulder blade | 100.00 | Tibia and Fibula, lower leg, both bones | 50.00 |
| Jaw, upper or lower | 50.00 | Humerus, upper arm | 50.00 | Tibia or Fibula, either | 25.00 |
| Femur, thigh | 50.00 | Sternum, breast bone | 25.00 | Clavicle, collar bone | 25.00 |
| Radius and Ulna, forearm, both bones | 50.00 | Ribs, one or more | 25.00 | Coccyx, end of spine | 25.00 |
| Radius or Ulna, either | 25.00 | | | | |

But in case of more than one such fractures, payment shall only be made for one thereof, the Insured having the right to elect for which fracture payment shall be made.

---

**PART V.**

The Company will pay for loss of life of the Insured which results within thirty days from date of accident, solely from such injuries caused by an accident in or out of business if not otherwise covered by this policy, and which shall have caused continuous total disability from date of accident to date of loss, the sum of **ONE HUNDRED DOLLARS ($100.00).**

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**PART VI.**

If the Insured shall in consequence of **ANY ACCIDENT IN OR OUT OF BUSINESS** not otherwise covered by the policy be continuously confined within the house and regularly visited therein by a Licensed Physician, not leaving it at any time for any purpose whatsoever and shall be wholly prevented from attending to any and every kind of work or business, for a period of not less than thirty (30) consecutive days from date of the accident, the Company will pay the sum of **TWENTY-FIVE ($25.00).**

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**PART VII.**

### HOSPITAL BENEFITS

**FOR LOSS FROM CONFINEMENT IN A PUBLIC OR PRIVATE HOSPITAL** in his home town or in a hotel or hospital away from his home town, for not more than five consecutive weeks, resulting from such injuries caused by **ANY ACCIDENT IN OR OUT OF BUSINESS** for which no other indemnity is provided by this policy, and which causes continuous total disability from its date.

**TWENTY-FIVE DOLLARS ($25.00) PER WEEK**

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**PART VIII.**

### SURGEON'S FEES—NON-DISABLING INJURIES

If the Insured suffers injury in any manner described in Parts II or III hereof, and such injury shall not result in either disability or death, but shall require medical or surgical treatment by a legally qualified physician or surgeon, the Company will reimburse the Insured for the cost thereof in an amount not to exceed **TEN DOLLARS ($10.00),** the attending physician's or surgeon's receipt for services being deemed sufficient proof under this clause, but such receipt must be furnished the Company within 90 days from the date of accident.

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**PART IX.**

### SICKNESS BENEFITS

If the Insured shall be continuously confined within the house, not leaving it at any time or for any purpose whatsoever, and regularly visited therein at least once in every seven days by a Licensed Physician and be wholly prevented from transacting any and every kind of business solely by

| | | | | |
|---|---|---|---|---|
| Abscess of Brain (when operated upon) | Bubonic Plague | Hemophilia | Myositis Ossificans | Shingles (Herpes Zoster) |
| Achondroplasia | Calentura Fever | Hives | Myxedema | Scleroderma |
| Acne | Cancer | Hordeolum | Noma | Scurvy |
| Acromegaly | Carbuncle | Hydrophobia | Osteomalacia | Small Pox |
| Acute Lead Poisoning | Charcot's Joint Disease | Ichthyosis | Pertussis | Spinal Meningitis |
| Acute Yellow Atrophy of Liver | Chicken Pox | Impetigo Contagiosa | Phlebitis | Tape Worm |
| Addison's Disease | Chorea (St. Vitus Dance) | Ivy Poisoning | Pityriasis Rubra | Trachoma |
| Aneurism of Aorta | Contagiosum | Leprosy | Pneumonia (lobar) | Trichinosis |
| Appendicitis initial attack and only when operation for removal of appendix is performed | Darien's Disease | Lichen Planus | Pruritus | Typhoid Fever |
| | Dengue Fever | Lockjaw (Tetanus) | Pseudo Hypertrophic Paralysis | Typhus Fever |
| | Diphtheria | Locomotor Ataxia | Psoriasis | Vaccinia Fever |
| | Eczema | Malignant Pustule (Anthrax) | Purpura Hemorrhagica | Varicella |
| | Elephantiasis (due to filiari sanguinis hominis) | Malta Fever | Rhinoscleroma | Varioloid |
| | | Measles | Rotheln | Verruca |
| Asiatic Cholera | Epilepsy | Molluscum | Rubella | Von Recklinghausen's Disease |
| Anaemia or Chilblain, | Felon | Morphea | Scabies | Yellow Fever |
| Barber's Itch | General Paresis | Mumps (Parotitis) | Scarlatina | Yellow Jaundice |
| Boils (Furuncle) | Goitre | Mushroom Poisoning | Scarlet Fever | |

not including their complications and consequences, provided that this insurance shall have been in continuous force for thirty days from its date prior to the contraction of the disease, the Company will pay for such confinement after the first seven days and not exceeding ten weeks a weekly indemnity of **TWENTY-FIVE DOLLARS ($25.00).**

**PART X.**

### EMERGENCY BENEFIT—REGISTRATION, IDENTIFICATION AND FINANCIAL AID

The Company will register the person insured hereunder and if he shall by reason of such injuries or sickness be physically unable to communicate with friends, will, upon receipt of a message giving this Policy Number, the number of the Key Tag, or the number on the card in the card case, which are furnished with this Policy, immediately transmit to such relatives or friends as may be known to it, any information respecting him, and will defray any expenses necessary to put him in communication with and in the care of friends, not exceeding

**ONE HUNDRED DOLLARS**

## XVI—*Continued*

### GENERAL PROVISIONS

The loss of any member or members specified herein shall mean the loss by actual and complete severance at or above the wrist or ankle; loss of eye or eyes shall mean the irrecoverable loss of the entire sight thereof.

This Policy may be renewed by the payment of annual premiums in advance, and a receipt signed by the Secretary and countersigned by a licensed agent of the Company shall be the only evidence binding upon the Company of the payment of a renewal premium.

This insurance does not cover (1) an employee of a common carrier, news company or the Government, while on duty, excepting only employees whose duties call them solely in the office and away from track, train, yard, roundhouse and repair shop; (2) while in or on a balloon or other aerial machine or conveyance; (3) miners while at work; (4) suicide or an attempt thereat while sane or insane; (5) while intoxicated or under the influence of or affected by or resulting directly or indirectly from intoxicants or narcotics, anaesthetics, gas, corrosives, poison, infection, or poisonous substances except provided in Clause 10 of Part III; (6) while riding or driving in races or sustained by professional motorcycle or bicycle riders; (7) the result of the intentional act of the Insured or any other person, except as provided by Clause 8 of Part III; (8) any loss contributed to or caused by any mental or bodily infirmity or venereal disease, vertigo or exposure to unnecessary danger; (9) while violating law; (10) while walking over or on the roadbed or bridge of any railway, except while crossing at a public street or highway; (11) injuries, fatal or non-fatal, except drowning, of which there shall be no visible mark or contusion on exterior of the body at the place of injury, the body itself in case of death not to be deemed such. (12) while engaged in military or naval service; (13) while engaged in playing football or handling explosives or firearms; (14) sickness contracted prior to the date of this policy or from any disease or sickness not named in the policy, or complicated with a disease not specifically covered by this policy, or (15) unless sustained in the United States, Canada, Europe or Mexico.

No recovery may be had under more than one of the provisions hereof and in no event shall the Company be liable under Part I for more than one of the specific losses named therein, and any payment hereunder, other than for weekly indemnity, or as provided by Parts IV, VI, VII, VIII, or X, shall terminate this policy. No assignment of this policy or change of beneficiary shall be valid unless approved by an executive officer of the Company and an endorsement shall be made hereon as provided by Standard Provision Number 2.

Strict compliance on the part of Insured and Beneficiary with all provisions of this Policy is a condition precedent to recovery hereunder, and any failure in this respect shall forfeit to the Company all right to any indemnity.

Between the ages of sixty and seventy all benefits hereunder shall be reduced one-third.

No provision of the charter or by-laws of the Company not incorporated in full herein shall avoid the Policy or be used in evidence in any legal proceeding. The authority of the General Agents or Special Agents of this Company, including the Agent issuing or countersigning this Policy, is limited to securing applications for personal Accident and Health Insurance, and to the execution or countersigning of the same, where written authority is given therefore, and for the collection of premiums upon such executed policies. The authority of all attorneys in fact for this Company is limited to the acts to be performed as set forth in the Power of Attorney appointing such Attorney-in-Fact. This Section relates to and limits the authority and power of every Agent and other representative of this Company in the manner set forth in this paragraph.

### STANDARD PROVISIONS

1. This Policy includes the endorsements and attached papers, if any, and contains the entire contract of insurance. No reduction shall be made in any indemnity herein provided by reason of change in the occupation of the Insured or by reason of his doing any act or thing pertaining to any other occupation.

2. No statement made by the applicant for insurance not included herein shall avoid the Policy or be used in any legal proceeding hereunder. No agent has authority to change this Policy or to waive any of its provisions. No change in this Policy shall be valid unless approved by an executive officer of the Company and such approval be endorsed hereon.

3. If default be made in the payment of the agreed premium for this Policy, the subsequent acceptance of a premium by the Company or by any of its duly authorized agents shall reinstate the Policy, but only to cover accidental injury thereafter sustained and such sickness as may begin more than ten days after the date of such acceptance.

4. Written notice of injury or of sickness on which claim may be based must be given to the Company within twenty days after the date of the accident causing such injury or within ten days after the commencement of disability from such sickness. In event of accidental death immediate notice thereof must be given to the Company.

5. Such notice given by or in behalf of the Insured or beneficiary, as the case may be, to the Company at Philadelphia, Penna., or to any authorized agent of the Company, with particulars sufficient to identify the Insured, shall be deemed to be notice to the Company. Failure to give notice within the time provided in this policy shall not invalidate any claim if it shall be shown not to have been reasonably possible to give such notice and that notice was given as soon as was reasonably possible.

6. The Company upon receipt of such notice will furnish to the claimant such forms as are usually furnished by it for filing proofs of loss. If such forms are not so furnished within fifteen days after the receipt of such notice, the claimant shall be deemed to have complied with the requirements of this Policy as to proof of loss upon submitting within the time fixed in the Policy for filing proofs of loss, written proof covering the occurrence, character and extent of the loss for which claim is made.

7. Affirmative proof of loss must be furnished to the Company at its said office in case of claim for loss of time from disability within ninety days after the termination of the period for which the Company is liable, and in case of claim for any other loss, within ninety days after the date of such loss.

8. The Company shall have the right and opportunity to examine the person of the Insured when and so often as it may reasonably require during the pendency of claim hereunder, and also the right and opportunity to make an autopsy in case of death where it is not forbidden by law.

9. All indemnities provided in this policy for loss other than that of time on account of disability will be paid immediately after receipt of due proof.

10. Upon request of the Insured and subject to due proof of loss all accrued indemnity for loss of time on account of disability will be paid at the expiration of each thirty days during the continuance of the period for which the Company is liable, and any balance remaining unpaid at the termination of such period will be paid immediately upon receipt of due proof.

11. Indemnity for loss of life of the Insured is payable to the beneficiary if surviving the Insured, and otherwise to the estate of the Insured. All other indemnities of this Policy are payable to the Insured.

12. If the Insured shall at any time change his occupation to one classified by the Company as less hazardous than that stated in the Policy, the Company, upon written request of the Insured and surrender of the Policy, will cancel the same and will return to the Insured the unearned premium.

13. Consent of the beneficiary shall not be requisite to surrender or assignment of this policy, or to change of beneficiary, or to any other changes in the Policy.

14. No action at law or in equity shall be brought to recover on this Policy prior to the expiration of sixty days after proof of loss has been filed in accordance with the requirements of this Policy, nor shall such action be brought at all unless brought within two years from the expiration of the time within which proof of loss is required by the Policy.

15. If any time limitation of this policy with respect to giving notice of claim or furnishing proof of loss is less than that permitted by the law of the state in which the insured resides at the time this policy is issued, such limitation is hereby extended to agree with the minimum period permitted by such law.

16. The Company may cancel this policy at any time by written notice delivered to the insured or mailed to his last address, as shown by the records of the Company, together with cash or the Company's check for the unearned portion of the premiums actually paid by the insured, and such cancellation shall be without prejudice to any claim originating prior thereto.

17. If the Insured shall carry with another company, corporation, association or society other insurance covering the same loss without giving written notice to the Company, then in that case the Company shall be liable only for such portion of the indemnity promised as the said indemnity bears to the total amount of like indemnity in all policies covering such loss, and for the return of such part of the premium paid as shall exceed the pro rata for the indemnity thus determined.

20. The insurance under this policy shall not cover any person under the age of sixteen years nor over the age of seventy years. Any premium paid to this Company for any period not covered by this policy will be returned upon request.

**In Witness Whereof** the CASUALTY COMPANY has caused this policy to be signed by its President and Secretary in the City of , Penna., but the same shall not be binding on the Company until signed by its authorized Agent.

Not valid if issued or dated after

Dated this.....day of.....

Countersigned by.....Licensed Agent at.....

XVI—*Continued*

## COPY OF APPLICATION

I hereby apply for Limited Accident and Sickness Insurance in the Casualty Company to be based upon the following representation of facts:

What is your name? Age? Race?

What is your weight? lbs. and Height? feet Inches.

Where do you reside? No. Street

Town State

What is your occupation?

To whom is Policy to be payable in case of death under its provisions?

Full name Relationship

Residence Age

Have you ever had fits, diabetes, kidney disease, syphilis, heart disease, hernia or any disease of the nervous system?

Have you lost a hand, foot or eye or the use of either?

Are you in whole and sound condition?

Have you had medical attendance within the past twelve months?

Have you any insurance in this Company?

Are you now carrying or have you applied for any other Accident or Health Insurance?

Has any application ever made by you been declined, or has any policy issued to you been cancelled or renewal refused by any Life, Accident or Health Insurance Association, Company or Society?

Dated at.....this.....day of.....19.....

Signed.....

**In the event of any accident or any sickness full particulars should be given immediately to the Company at Penna. It is not necessary for the insured or the Beneficiary to employ any person to collect any indemnity provided in this policy.**

XVII

ACCIDENT AND HEALTH POLICY

**Form XHD. This Policy provides for loss of Life, Limb, Sight and Time, caused by accidental bodily injuries effected through external violence, and for disability caused by disease, to the extent herein provided.**

# THE

# INSURANCE COMPANY

## Does Hereby Insure

.....

under classification.....by occupation a

.....

against loss resulting from Bodily Injuries, effected directly and independently of all other causes, through External, Violent and Accidental means (Suicide, sane or insane is not covered), and against disability by Disease, as specified in the following Schedules, respectively, subject to the provisions and limitations hereinafter contained.

## Schedule of Indemnities—Accident Insurance

*The Principal Sum of this Policy is $.....*

### Part A. Death, Dismemberment and Loss of Sight—Single Indemnity

If such injuries shall wholly and continuously disable the Insured from the date of accident from performing any and every kind of duty pertaining to his occupation, and during the period of such continuous disability, but within two hundred weeks from date of accident, shall result independently and exclusively of all other causes in any one of the losses enumerated in this part, or within ninety days from the date of the accident, irrespective of total disability, result in like manner in any one of such losses, the Company will pay the sum set opposite such loss and in addition weekly indemnity as provided in Part B to the date of death, dismemberment, or loss of sight; but only one of the amounts so specified and the additional weekly indemnity will be paid for injuries resulting from one accident.

**FOR LOSS OF**

| | |
|---|---|
| *Life* | *The Principal Sum* |
| *Both Hands or Both Feet or Sight of Both Eyes* | *The Principal Sum* |
| *One Hand and One Foot* | *The Principal Sum* |
| *Either Hand or Foot and Sight of One Eye* | *The Principal Sum* |
| *Either Hand or Foot* | *1-2 Principal Sum* |
| *Sight of One Eye* | *1-3 Principal Sum* |
| *Thumb and Index Finger of Either Hand* | *1-4 Principal Sum* |

Loss shall mean, with regard to hands and feet, dismemberment by severance at or above wrist or ankle joints; with regard to eyes, entire and irrecoverable loss of sight; with regard to thumb and index finger, severance at or above metacarpo-phalangeal joints.

*The Payment in any such case shall end this Policy.*

Or, in the event of the loss of both hands, or both feet, or the sight of both eyes, covered and defined as above, if the Insured shall so elect in writing, the Company will pay in lieu of the specific indemnity enumerated above, weekly indemnity at the rate prescribed in part B for total disability so long as the Insured shall live.

### Instalment Option to Beneficiary

In case of valid claim for death under this Policy, the Beneficiary may elect to have it paid in monthly instalments as follows, for each $1,000: First instalment to be paid Immediately after receipt of due proof of claim.

60 Monthly Instalments Certain of $18.19
or, 120 Monthly Instalments Certain of 9.86
or, 180 Monthly Instalments Certain of 7.14
or, 240 Monthly Instalments Certain of 5.78

Upon the written request of the Beneficiary at any time before all of the instalments elected hereunder shall have been paid, or upon the like request of her executor or administrator if she shall die before receiving all of such instalments, the then present value of the remainder thereof computed at three and one-half per cent. interest will be paid in one sum to the Beneficiary or to her executor or administrator, as the case may be.

### Part B. Total and Partial Disability—Single Indemnity

*Total Loss of Time* Or, if such injuries, independently and exclusively of all other causes, shall wholly and continuously disable the Insured from the date of accident from performing any and every kind of duty pertaining to his occupation, the Company will pay, so long as the Insured lives and suffers such total disability, a weekly indemnity of $

*Partial Loss of Time* Or, if such injuries, independently and exclusively of all other causes, shall wholly and continuously disable the Insured from date of accident from performing one or more important daily duties pertaining to his occupation, or for like continuous disability following total loss of time, the Company will pay during the period of such disability, but not exceeding twenty-six consecutive weeks, a weekly indemnity (one-half of rate for total loss of time) of $

No payment of weekly indemnity shall be made in case of any loss enumerated in Part A, except as therein provided.

### Part C. Double Indemnity

If such injuries *are sustained* (1) while a passenger in or on a public conveyance provided by a common carrier for passenger service (including the platform, steps or running-board of railway or street railway cars); or (2) while a passenger in a passenger elevator (excluding elevators in mines); or *are caused* (3) by the burning of a building provided the Insured is therein at the commencement of the fire; or by the collapse of the outer walls of a building while the Insured is therein; or, (4) by a stroke of lightning; or, (5) by the explosion of a steam boiler; or, (6) by a cyclone or by a tornado; *the Company will pay Double the amount otherwise payable under Part A or B of this Policy.*

### Part D. Elective Benefits

The Insured, if he so elect in writing within twenty days from date of accident, may take, in lieu of the weekly indemnity hereinbefore provided for total and partial disability, indemnity in one sum, according to the following Schedule, if the injury is one set forth in such Schedule, but not more than one Elective benefit shall be paid for injuries resulting from one accident. When the Insured is entitled to double indemnity the Elective indemnity shall be doubled in like manner.

XVII—*Continued*

## ACCIDENT AND HEALTH POLICY

### Schedule of Elective Benefits

If the single weekly indemnity for total loss of time payable under this Policy is $50.00, the amounts named below shall be payable; if such weekly indemnity is greater or less than $50.00, the amounts to be paid shall be increased or reduced proportionately.

| | |
|---|---|
| FOR LOSS | |
| Of one or more Fingers (at least one entire phalanx) | $300 |
| Of one or more entire Toes | 400 |
| FOR COMPLETE DISLOCATION | |
| Of the Shoulder | 200 |
| Of the Elbow | 200 |
| Of the Wrist | 250 |
| Of the Hip | 600 |
| Of the Knee | 300 |
| Of any Bones of Foot, other than Toes | 300 |
| Of the Ankle | 300 |
| Of two or more Toes | 100 |
| Of two or more Fingers | 100 |
| FOR THE COMPLETE FRACTURE OF BONES | |
| Of the Skull, both tables | $650 |
| Of the Lower Jaw | 150 |
| Of the Collar Bone | 300 |
| Of the Pelvis | 500 |
| Of the Thigh | 600 |
| Of the Leg | 400 |
| Of the Knee Cap | 400 |
| Of the Arm, between Elbow and Shoulder | 600 |
| Of the Forearm, between Wrist and Elbow | 300 |
| Of two or more Ribs | 200 |
| Of the Foot, other than Toes | 250 |
| Of the Hand, other than Fingers | 250 |
| Of two or more Toes | 200 |
| Of two or more Fingers | 200 |

## Schedule of Indemnities—Health Insurance

**Part E.**

*Temporary Disability*

(1) For the period of continuous disability during which the Insured shall, independently of all other causes, be wholly disabled and prevented by bodily disease, not hereinafter excepted, from performing any and every kind of duty pertaining to his occupation, the Company will pay a weekly indemnity of $_____; and if following such a period of total disability, he shall be continuously wholly disabled and prevented by bodily disease, not hereinafter excepted, from performing at least half the work essential to the duties of his occupation, the Company will pay during the period of such partial disability, a weekly indemnity of one-half of the weekly amount provided for total disability; but no payment shall be made for disability of either or both kinds in excess of fifty-two consecutive weeks' duration.

*Permanent Disability*

(2) If the Insured shall suffer the entire and irrecoverable loss of the use of both hands or both feet, or of one hand and one foot, or the sight of both eyes, as the result of such disease the Company will continue to pay him in lieu of all other indemnity, except for surgical or hospital indemnity, the weekly indemnity specified in Section 1 of this Part during such period as the Insured shall independently of all other causes be thereby wholly and continuously disabled and prevented from engaging in any occupation or employment for wage or profit, but no payment under this Section 2 shall be made for any period of disability in excess of one hundred (100) weeks.

*The Payment for Permanent Disability shall end this Policy.*

No payment shall be made for disability resulting from any disease for which the Insured is not treated by a physician or from disease beginning within fifteen days from noon of the date of this Policy.

**Part F.**

## Surgical Benefits—Accident and Health Insurance

If an operation named in the Schedule of Operations which forms a part of this Policy shall be performed by a surgeon on account of a bodily injury or disease covered by this Policy and within ninety days from the date of accident or commencement of such disease, the Company will pay the surgical benefit specified in the Schedule for such operation in addition to any other indemnity to which the Insured may be entitled. If more than one such operation shall be performed on account of injury sustained in one accident or on account of one illness the Insured shall receive the largest surgical benefit specified in the Schedule for any one of the operations so performed. If an accidental bodily injury shall be sustained which shall not result in death or other disability, or necessitate an operation named in the Schedule, but which shall require surgical treatment the Company will pay the amount actually expended for such treatment, but not exceeding the amount of the single indemnity hereunder for total loss of time for one week.

**Part G.**

## Hospital Indemnity—Accident and Health Insurance

If on account of a bodily injury or illness for which weekly indemnity is payable under this Policy, the Insured shall be removed to a hospital within ninety days from the date of accident, or commencement of disability by disease, the Company will pay 50 Per Cent. additional single weekly indemnity for the period during which he shall be a patient resident in the hospital but not exceeding twenty consecutive weeks.

**Part H.**

## Identification and Registration

If the Insured by reason of injury or illness shall be physically unable to communicate with friends, the Company, upon receipt of a telegram or other message giving the number of this Policy, will immediately transmit to his relatives or friends any information respecting him and will defray all expenses necessary to put the Insured in the care of friends, provided such expense shall not exceed the sum of One Hundred Dollars.

## Standard Provisions

1. This Policy includes the endorsements and attached papers, if any, and contains the entire contract of insurance except as it may be modified by the Company's classification of risks and premium rates in the event that the Insured is injured after having changed his occupation to one classified by the Company as more hazardous than that stated in the Policy, or while he is doing any act or thing pertaining to any occupation so classified, except ordinary duties about his residence or while engaged in recreation, in which event the Company will pay only such portion of the indemnities provided in the Policy as the premium paid would have purchased at the rate but within the limits so fixed by the Company for such more hazardous occupation.

If the law of the State in which the Insured resides at the time this Policy is issued requires that prior to its issue a statement of the premium rates and classification of risks pertaining to it shall be filed with the state official having supervision of insurance in such state, then the premium rates and classification of risks mentioned in this Policy shall mean only such as have been last filed by the Company in accordance with such law, but if such filing is not required by such law then they shall mean the Company's premium rates and classification of risks last made effective by it in such state prior to the occurrence of the loss for which the Company is liable.

2. No statement made by the applicant for insurance not included herein shall avoid the Policy or be used in any legal proceeding hereunder. No agent has authority to change this Policy or to waive any of its provisions. No change in this Policy shall be valid unless approved by an executive officer of the Company and such approval be endorsed hereon.

3. If default be made in the payment of the agreed premium for this Policy, the subsequent acceptance of a premium by the Company or by any of its duly authorized agents shall reinstate the Policy but only to cover accidental injury thereafter sustained and such sickness as may begin more than ten days after the date of such acceptance.

4. Written notice of injury or of sickness on which claim may be based must be given to the Company within twenty days after the date of the accident causing such injury or within ten days after the commencement of disability from such sickness. In event of accidental death immediate notice thereof must be given to the Company.

5. Such notice given by or in behalf of the Insured or Beneficiary, as the case may be, to the Company at _____, or to any authorized agent of the Company, with particulars sufficient to identify the Insured, shall be deemed to be notice to the Company. Failure to give notice within the time provided in this Policy shall not invalidate any claim if it shall be shown not to have been reasonably possible to give such notice and that notice was given as soon as was reasonably possible.

6. The Company upon receipt of such notice, will furnish to the claimant such forms as are usually furnished by it for filing proofs of loss. If such forms are not so furnished within fifteen days after the receipt of such notice, the claimant shall be deemed to have complied with the requirements of this Policy as to proof of loss upon submitting within the time fixed in the Policy for filing proofs of loss, written proof covering the occurrence, character and extent of the loss for which claim is made.

7. Affirmative proof of loss must be furnished to the Company at its said office in case of claim for loss of time from disability within ninety days after the termination of the period for which the Company is liable, and in case of claim for any other loss, within ninety days after the date of such loss.

8. The Company shall have the right and opportunity to examine the person of the Insured when and so often as it may reasonably require during the pendency of claim hereunder, and also the right and opportunity to make an autopsy in case of death where it is not forbidden by law.

9. All indemnities provided in this Policy for loss other than that of time on account of disability will be paid immediately after receipt of due proof.

10. Upon request of the Insured and subject to due proof of loss all accrued indemnity for loss of time on account of disability will be paid at the expiration of each four weeks during the continuance of the period for which the Company is liable, and any balance remaining unpaid at the termination of such period will be paid immediately upon receipt of due proof.

## XVII—*Continued*

11. Indemnity for loss of life of the Insured is payable to the Beneficiary if surviving the Insured, and otherwise to the estate of the Insured. All other indemnities of this Policy are payable to the Insured.

12. If the Insured shall at any time change his occupation to one classified by the Company as less hazardous than that stated in the Policy, the Company, upon written request of the Insured and surrender of the Policy, will cancel the same and will return to the Insured the unearned premium.

13. Consent of the Beneficiary shall not be requisite to surrender or assignment of this Policy, or to change of beneficiary, or to any other changes in the Policy.

14. No action at law or in equity shall be brought to recover on this Policy prior to the expiratinn of sixty days after proof of loss has been filed in accordance with the requirements of this Policy, nor shall such action be brought at all unless brought within two years from the expiration of the time within which proof of loss is required by the Policy.

15. If any time limitation of this Policy with respect to giving notice of claim or furnishing proof of loss is less than that permitted by the law of the state in which the Insured resides at the time this Policy is issued, such limitation is hereby extended to agree with the minimum period permitted by such law.

16. The Company may cancel this Policy at any time by written notice delivered to the Insured or mailed to his last address as shown by the records of the Company, together with cash or the Company's check for the unearned portion of the premiums actually paid by the Insured, and such cancelation shall be without prejudice to any claim originating prior thereto.

## Additional Provisions

(a.) The insurance under Parts A to D inclusive, shall not cover accident, injury, disability, death or other loss caused directly or indirectly, wholly or partly, by bodily or mental infirmity, ptomaines, bacterial infections (except pyogenic infectioos which shall occur with eod through an accidental cut or wound), or by any other kind of disease; nor shall it cover aoy injury, fatal or non-fatal, caused directly or indirectly by war or by any act of war, or sustained by the Insured while participating in or in consequence of having participated in aeronautics; nor shall it cover the Insured while in military or naval service in time of war.

(b.) The insurance under Part E shall not cover disease contracted, or sickness or disability sustained, in the tropics or in aoy part of Alaska or the British Possessions in America, north of the sixtieth degree of north latitude; nor shall it cover disability by disease while engaged in military or naval service, nor shall it cover disability for aoy period for which the Insured has either made claim or may become eotitled to indemnity for or on account of injuries by accidental violence; nor shall it cover disability unless the disease is contracted end the disability begins while the Policy is in force.

(c.) A copy of any assignment shall be given within thirty (30) days to the Company which shall not be responsible for its validity.

(d.) The copy of the application endorsed hereon is hereby made a part of this contract which is made subject thereto. No provision of the charter, constitution or by-laws of the Company shall avoid the insurance bereunder or be used in evidence or in defense of any claim arising under this Policy

No.

(e.) This Policy is issued in consideration of the premium of_____dollars, for the term of_____months, to commence on the day this Policy is dated against accidental bodily injuries, and for the term of_____days to commence on the fifteenth day after the day this Policy is dated against disability by disease and beginning and ending in each case at twelve o'clock noon, standard time of the place where Insured resides, but it may be renewed with the consent of the Company, from term to term of_____months each, by the payment of the aforesaid premium in advance until the Insured shall be fifty-one years of age. If the Policy shall be renewed thereafter, the renewal premium shall be_____dollars.

**In Witness Whereof** THE INSURANCE COMPANY has caused this Policy to be signed by its President and a Secretary, and dated this _____day of_____19____, but the same shall not be binding upon the Company until countersigned by a duly authorized Agent or Cashier of the Company.

**Specimen Contract** **Specimen Contract**

Countersigned_____

## Copy of Application

"Application to The Insurance Company,

What is your full name?_____

A. What is your age?_____ Date of birth?_____ Place of birth? (State or Country)_____

B. Color?_____ C. Height?_____ ft._____ in. D. Weight?_____ lbs.

E. Where do you reside? (Street and No.) (City or Town)_____

County of_____ State of_____

F. Are you member of firm or employee? (Member of firm) (Employee)_____

Located at (State name of firm and business engaged in)_____ Street, Town of_____ State of_____

G. State fully your occupation—position, nature of business engaged in and the duties performed?_____

*H. To whom shall Policy be payable in case of death? Name_____ Address_____ Age_____ Height_____ ft._____ in. Weight_____ lbs.

What is relationship of the beneficiary to you?_____

I. Do your average weekly earnings exceed the aggregate single weekly indemnity payable under this Policy and all other similar policies now carried by you?_____

J. What life, accident or health insurance have you in this Company?_____

What accident or health insurance have you in other companies or associations?_____

Have you ever received indemnity for any injury or illness?_____

K. Have you ever been declined or postponed for life, accident or health insurance?_____

Have you ever made application for life, accident or health insurance upon which you have not been notified of the action thereon?_____

Has any life, accident or health policy issued to you been canceled or has any renewal thereof been refused, by this or any other company or association?_____

L. Have you in contemplation any special journey or hazardous undertaking?_____

Do you ever engage in motorcycling or aeronautics?_____

Do you own or operate an automobile?_____

M. Have any of your relatives ever been insane or had tuberculosis?_____

N. Are your habits temperate?_____

O. Are you maimed or deformed?_____

Is your sight or hearing impaired?_____

Have you ever had a hernia or worn a truss?_____

Have you ever had any of the following: Epilepsy?_____ Syphilis?_____

Vertigo or Dizziness?_____ Diabetes?_____ Tuberculosis?_____

Mental disorder?_____ Disease of Brain or Nervous System?_____

Disease of Tonsils, Nose or Throat?_____

P. Have you within the past five years had medical or surgical advice or treatment or any departures from good health? If so, state when and what, and duration_____ (Month—Year) (Nature of Ailment) (Duration of Ailment)

Q. Have you ever had, or ever been advised to have, an operation?_____ (If Answer is "Yes", give full particulars)

R. Have you been exposed during the last ten days to any contagious or infectious disease?_____

S. Do you agree that the falsity of any answer in this application for a Policy shall bar the right to recover thereunder if such answer is made with intent to deceive or materially affects either the acceptance of the risk or the hazard assumed by the Company?_____

Policy applied for this_____ day of_____ 19____

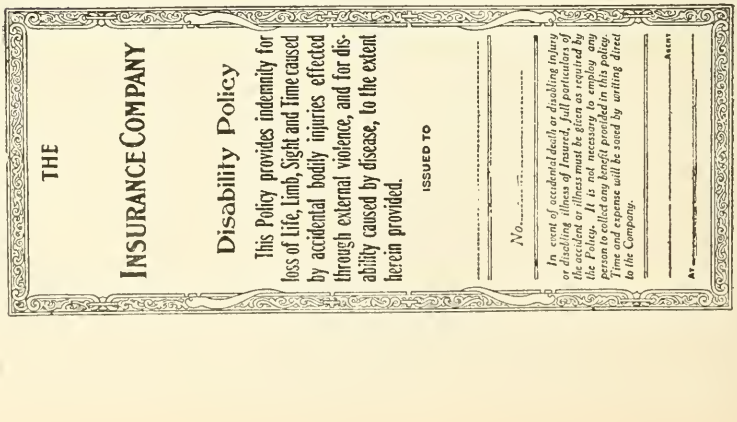
*If no benefit in Policy for loss of life write "No death benefit" in section H. Signature of Applicant ☞_____

## XVII—*Continued*

### Schedule of Operations—Surgical Benefits

If the single weekly indemnity for total loss of time payable under this Policy is $50.00, the amounts named below shall be payable. If such weekly indemnity is greater or less than $50.00 the amounts to be paid shall be increased or reduced proportionately.

| | |
|---|---|
| ABSCESS. Incision | $10 |
| ABDOMEN. Cutting into Abdominal Cavity for diagnosis or treatment of organs therein | 200 |
| AMPUTATION OF | |
| Entire Hand, Forearm, or Foot | 50 |
| Leg or Arm | 100 |
| Thigh | 150 |
| Finger or Fingers | 20 |
| ANEURISM. Operation for tying of Artery | 70 |
| APPENDICITIS. Abdomen | 200 |
| BONE. Injuries to or disease of. Removal of diseased portion of bone | 50 |
| CANCER OF LIP. Removal of, by cutting operation | 50 |
| CARBUNCLE. Incision | 10 |
| CHEST. Cutting into thoracic cavity for diagnosis or treatment of organs therein | 50 |
| DISLOCATION. Reduction of | |
| Hip or Knee | 70 |
| Shoulder, Elbow, or Ankle | 50 |
| Wrist or Lower Jaw | 30 |
| Thumb | 20 |
| Fingers | 10 |
| EYE, EAR, NOSE OR THROAT. Any cutting operation | 20 |
| EYE. Removal | 100 |
| EXCISION. Removal of | |
| Shoulder or Hip Joint | 200 |
| Knee Joint | 150 |
| Elbow, Wrist, or Ankle Joint | 100 |
| Toe or Toes | 20 |
| FRACTURES. Reduction of | |
| Nose, Lower Jaw, Collar Bone, or Shoulder Blade | 50 |
| Breast Bone or Ribs | 20 |
| Upper Arm | 70 |
| Forearm | 50 |
| Wrist | 50 |
| Hand | 30 |
| Fingers | 10 |
| Bones of the Pelvis (except Coccyx) | 150 |
| Coccyx | 20 |
| Thigh | 150 |
| Knee Cap or Leg | 100 |
| Bones of Foot | 30 |
| Toes | 20 |
| GOITRE. Cutting operation for permanent cure | $150 |
| GUNSHOT WOUNDS. Treatment of, not necessitating amputation or any cutting operation into Abdominal Cavity | 30 |
| HYDROCELE. Incision and treatment of Sac | 50 |
| HYDROPHOBIA. Pasteur treatment | 100 |
| INFLAMMATION OF JOINT. Incision into Joint | 50 |
| INTESTINAL OBSTRUCTION. See Abdomen | |
| KIDNEY. See Abdomen | |
| LOCKJAW. Injection of Antitoxin into Skull | 200 |
| Injection of Antitoxin into Spinal Canal | 100 |
| MASTOIDITIS. Cutting operation for removal of diseased bone | 100 |
| NERVE. Cutting operation for stretching | 50 |
| RECTUM. Operation for radical cure | |
| Hæmorrhoids, external | 30 |
| " internal | 50 |
| Prolapsed | 50 |
| Fistula in Ano | 40 |
| Malignant Stricture | 200 |
| SKULL. Cutting into cranial cavity | 200 |
| SPINE OR SPINAL CORD. Operation with removal of fractured vertebra | 200 |
| STRICTURE ŒSOPHAGUS. Cutting operation (external) for permanent cure of | 200 |
| STONE IN BLADDER. Removal of, by cutting or crushing operation | 150 |
| TAPPING OF. | |
| Abdomen | 50 |
| Bladder | 30 |
| Chest | 30 |
| Ear Drum | 20 |
| Hydrocele | 20 |
| Joints | 20 |
| TRACHEA. Cutting into for removal of foreign bodies or for relief of difficult breathing | 70 |
| TUMORS. Removal of, by cutting operation | |
| Malignant | 100 |
| Benign | 30 |
| VARICOCELE. Cutting operation for permanent cure | 50 |
| VEINS, VARICOSE. Cutting operation for permanent cure | 50 |
| WOUNDS. Suturing | 10 |



## XVIII

## ACCIDENT AND HEALTH POLICY

**This policy provides indemnity for loss of life or time through accidental means, and for loss of time by sickness; to the extent herein provided.**

THE

.....

INSURANCE COMPANY

(HEREIN CALLED COMPANY)

HEREBY INSURES (herein called Insured and described in the Application), subject to all provisions and limitations herein contained:

Against loss of life resulting directly and independently of all other causes, from bodily injury effected during the term of this policy solely through accidental means; and

Against disability commencing while this policy is in force and resulting from bodily injury effected through accidental means; and against disability commencing while this policy is in force and resulting from sickness; such disability, in both cases, to be such as will result in continuous total loss of business time, as follows:

SPECIMEN

### Loss of Life

Part A. The Company will pay Dollars should loss of life as defined above result within one hundred and twenty days from date of the accident.

### Disability

Part B. The Company will pay indemnity at the rate of Dollars per month during the continuance of disability as defined above until such time as the Insured engages in a gainful occupation, provided, however, that no indemnity shall be paid under this Part B or under Parts C, D or E, for the first * of any period of disability.

### Loss of Both Hands, Both Feet, Hand and Foot or the Sight of Both Eyes

Part C. Should the Insured suffer, as a direct result of such injury or such sickness, the loss of both entire hands by complete severance at or above the wrists, or the loss of both entire feet by complete severance at or above the ankles, or the loss of one entire hand by complete severance at or above the wrist and one entire foot by complete severance at or above the ankle, or the irrecoverable loss of the entire sight of both eyes, he shall be deemed to have sustained a permanent disability resulting in continuous total loss of his business time and the Company will pay indemnity at the rate per month specified in Part B as long as he shall live, or;

### Loss of One Hand or One Foot

Part D. Should the Insured suffer, as the direct result of such injury or such sickness, the loss of one entire hand by complete severance at or above the wrist, or the loss of one entire foot by complete severance at or above the ankle, the Company will pay indemnity at the rate per month specified in Part B for the period for which such loss causes disability as defined above, and at the termination of such disability will consider such loss to have caused a permanent disability of 25%, and will pay the Insured, as long as he shall live, monthly indemnity at the rate of 25% of the amount specified in Part B, or;

### Loss of the Sight of One Eye

Part E. Should the Insured suffer, as the direct result of such injury or such sickness, the irrecoverable loss of the entire sight of one eye, the Company will pay indemnity at the rate per month specified in Part B for the period for which such loss causes disability as defined above, and at the termination of such disability will consider such loss to have caused a permanent disability of 10%, and will pay the Insured, as long as he shall live, monthly indemnity at the rate of 10% of the amount specified in Part B.

*No indemnity is payable under this policy for the specified first part of any period of disability.

Renewable through age 65.

XVIII—*Continued*

## Standard Provisions

**1. This policy includes the endorsements and attached papers, if any, and contains the entire contract of insurance except as it may be modified by the Company's classification of risks and premium rates in the event that the Insured is injured or contracts sickness after having changed his occupation to one classified by the Company as more hazardous than that stated in the policy, or while he is doing any act or thing pertaining to any occupation so classified, except ordinary duties about his residence or while engaged in recreation, in which event the Company will pay only such portion of the indemnities provided in the policy as the premium paid would have purchased at the rate but within the limits so fixed by the Company for such more hazardous occupation.**

**If the law of the state in which the Insured resides at the time this policy is issued requires that prior to its issue a statement of the premium rates and classification of risks pertaining to it shall be filed with the state official having supervision of insurance in such state, then the premium rates and classification of risks mentioned in this policy shall mean only such as have been last filed by the Company in accordance with such law, but if such filing is not required by such law then they shall mean the Company's premium rates and classification of risks last made effective by it in such state prior to the occurrence of the loss for which the Company is liable.**

2. No statement made by the applicant for insurance not included herein shall avoid the policy or be used in any legal proceeding hereunder. No agent has authority to change this policy or to waive any of its provisions. No change in this policy shall be valid unless approved by an executive officer of the Company and such approval be endorsed hereon.

3. If default be made in the payment of the agreed premium for this policy, the subsequent acceptance of a premium by the Company or by any of its duly authorized agents shall reinstate the policy but only to cover accidental injury thereafter sustained and such sickness as may begin more than ten days after the date of such acceptance.

**4. Written notice of injury or of sickness on which claim may be based must be given to the Company within twenty days after the date of the accident causing such injury or within ten days after the commencement of disability from such sickness. In event of accidental death immediate notice thereof must be given to the Company.**

5. Such notice given by or in behalf of the Insured or beneficiary, as the case may be, to the Company at its Home Office, _____ in the city of _____ or to any authorized agent of the Company, with particulars sufficient to identify the Insured, shall be deemed to be notice to the Company. Failure to give notice within the time provided in this policy shall not invalidate any claim if it shall be shown not to have been reasonably possible to give such notice and that notice was given as soon as was reasonably possible.

6. The Company upon receipt of such notice, will furnish to the claimant such forms as are usually furnished by it for filing proofs of loss. If such forms are not so furnished within fifteen days after the receipt of such notice, the claimant shall be deemed to have complied with the requirements of this policy as to proof of loss upon submitting within the time fixed in the policy for filing proofs of loss, written proof covering the occurrence, character and extent of the loss for which claim is made.

7. Affirmative proof of loss must be furnished to the Company at its said office in case of claim for loss of time from disability within ninety days after the termination of the period for which the Company is liable, and in case of claim for any other loss, within ninety days after the date of such loss.

8. The Company shall have the right and opportunity to examine the person of the Insured when and so often as it may reasonably require during the pendency of claim hereunder, and also the right and opportunity to make an autopsy in case of death where it is not forbidden by law.

9. All indemnities provided in this policy for loss other than that of time on account of disability will be paid immediately after receipt of due proof.

10. Upon request of the Insured and subject to due proof of loss all of the accrued indemnity for loss of time on account of disability will be paid at expiration of each month during the continuance of the period for which the Company is liable, and any balance remaining unpaid at the termination of such period will be paid immediately upon receipt of due proof.

11. Indemnity for loss of life of the Insured is payable to the beneficiary if surviving the Insured, and otherwise to the estate of the Insured. All other indemnities of this policy are payable to the Insured.

12. If the Insured shall at any time change his occupation to one classified by the Company as less hazardous than that stated in the policy, the Company, upon written request of the Insured and surrender of the policy, will cancel the same and will return to the Insured the unearned premium.

13. Consent of the beneficiary shall not be requisite to surrender or assignment of this policy, or to change of beneficiary, or to any other changes in the policy.

14. No action at law or in equity shall be brought to recover on this policy prior to the expiration of sixty days after proof of loss has been filed in accordance with the requirements of this policy, nor shall such action be brought at all unless brought within two years from the expiration of the time within which proof of loss is required by the policy.

15. If any time limitation of this policy with respect to giving notice of claim or furnishing proof of loss is less than that permitted by the law of the state in which the Insured resides at the time this policy is issued, such limitation is hereby extended to agree with the minimum period permitted by such law.

18. Upon the payment of claim hereunder any premium then due and unpaid or covered by any note or written order may be deducted therefrom.

**19. If a like policy or policies, previously issued by the Company to the Insured be in force concurrently herewith, making the aggregate indemnity for loss other than that of time on account of disability in excess of $50,000.00, or the aggregate indemnity for loss of time on account of disability in excess of $250.00 weekly, the excess insurance of either kind shall be void and all premiums paid for such excess shall be returned to the Insured.**

20. The insurance under this policy shall not cover any person under the age of eighteen years nor over the age of sixty-five years. Any premium paid to the Company for any period not covered by this policy will be returned upon request.

XVIII—*Continued*

## Additional Provisions

21. This insurance does not cover, (1) any disability for which the Insured is not necessarily and regularly attended by a legally qualified physician other than the Insured; provided, however, that this requirement shall be waived in the event such attendance is declared by medical authority satisfactory to the Company to be unnecessary; (2) suicide, sane or insane, or any attempt thereat, sane or insane; (3) women; (4) loss of life or disability resulting wholly or partly, directly or indirectly from (a) bodily injury sustained or sickness contracted while the Insured is engaged in military or naval service in time of war; (b) bodily injury or sickness caused by war or by any act of war; (c) bodily injury sustained or sickness contracted from riding or being in or upon any aerial device or conveyance; (d) bodily injury sustained or sickness contracted while the Insured is outside Canada or Europe or the United States (not including Alaska, Panama Canal Zone or the insular possessions of the United States).

22. No recovery shall be had on account of disability from sickness for any period of time for which the Insured is entitled to indemnity for bodily injury under any policy in this Company, except in the event of payment of claim for indemnity on a percentage basis as provided in Parts D or E, but in no event shall indemnity be payable under this policy at a rate per month in excess of that specified in Part B. Failure to comply with any of the provisions of this policy shall render invalid any claim under this policy.

23. After the first twelve months of disability, no indemnity shall be payable for any period of disability during which the Insured is not continuously within the United States (not including Alaska, the Panama Canal Zone or the insular possessions of the United States) unless a written permit to reside elsewhere be granted by the Company.

24. Until the Insured becomes sixty-six years of age he shall have the right to renew this policy from year to year by the payment of the premium as herein provided. All premiums are due and payable on or before the anniversary date of this policy either at the Home Office of the Company in the City of or to eny authorized agent of the Company, but a grace of thirty-one days shall be granted for the payment of every premium after the first, during which time the insurance hereunder shall continue in force. No premium receipt is valid unless signed by the President or a Vice President or the Secretary or an Assistant Secretary of the Company. After any default in payment of premium this policy may be reinstated as provided in Standard Provision Number 3 at any time within six months from the date of such default on written application by the Insured to the Home Office of the Company and the payment of the defaulted premium, provided the Insured shall with such application submit evidence of insurability satisfactory to the Company. This policy shall be incontestable after one year from its date as to the time of the happening of bodily injury or sickness causing disability commencing after such year and while this policy is in force.

25. At any time during the life of this policy, if the Insured changes his occupation to one different from that stated in this policy, the Company hereby agrees upon the surrender of this policy to issue in lieu thereof upon the written request of the Insured, a new policy containing the same provisions as this policy except a change in the amount of the benefits payable, the new policy to provide such an amount payable for loss of life and disability as the premium paid for this policy will purchase at the rates but within the limits fixed by the Company for such different occupation.

26. The Insured is by occupation a

classified by the Company.

27. The beneficiary under this policy is

whose relationship to the Insured is that of . No assignment of interest under this policy and no change of beneficiary shall bind the Company unless consent thereto, duly signed by an executive officer of the Company, is formally endorsed hereon. The Company shall not be responsible for the validity of any assignment or change of beneficiary.

28. This insurance is effective in consideration of the payment in advance of the premium of Dollars

and of the payment of a like premium on the day of in each year

during the continuance of this Policy, and in further consideration of the statements made in the application for this policy, copy of which application is endorsed hereon or attached hereto, and is hereby made a part of this Policy. The falsity of any statement in the application, materially affecting either the acceptance of the risk or the hazard assumed hereunder, or made with intent to deceive shall bar all right to recovery under this policy. No provision of the charter, constitution or by-laws of the Company not herein set forth shall be used in defense of any claim arising under this policy.

IN WITNESS WHEREOF, THE COMPANY has, by its proper officers, signed this Contract in the City of and caused same to be countersigned by its authorized Agent or Manager, as of the

day of , 19

EXAMINED

SECRETARY

COUNTERSIGNED

AUTHORIZED AGENT OR MANAGER

XIX

ACCIDENT AND HEALTH RATES

| Class | Monthly Accident and Illness Indemnity | Yearly Premiums | | Accidental Death, Loss of Both Limbs or Eyes |
|---|---|---|---|---|
| | | Ages 18 to 50 | Ages 51 to 55 | |
| Select and Preferred | $50 00 | $21 00 | $26 50 | $500 00 |
| | 75 00 | 31 50 | 39 75 | 750 00 |
| | 80 00 | 33 60 | 42 40 | 800 00 |
| | 90 00 | 37 80 | 47 70 | 900 00 |
| | 100 00 | 42 00 | 53 00 | 1000 00 |
| | 100 00 | 43 50 | 54 50 | 2000 00 |
| | 100 00 | 45 00 | 56 00 | 3000 00 |
| | 100 00 | 46 50 | 57 50 | 4000 00 |
| | 100 00 | 48 00 | 59 00 | 5000 00 |
| | 50 00 | 24 00 | 29 50 | 2500 00 |
| Extra Preferred | $40 00 | $18 85 | $23 25 | $500 00 |
| | 50 00 | 23 30 | 28 80 | 500 00 |
| | 60 00 | 28 00 | 34 56 | 600 00 |
| | 80 00 | 37 17 | 45 97 | 750 00 |
| | 100 00 | 46 60 | 57 60 | 1000 00 |
| | 100 00 | 48 70 | 59 70 | 2000 00 |
| | 100 00 | 50 80 | 61 80 | 3000 00 |
| | 100 00 | 52 90 | 64 00 | 4000 00 |
| | 100 00 | 55 00 | 66 10 | 5000 00 |
| | 50 00 | 27 50 | 33 00 | 2500 00 |
| Ordinary | $40 00 | $23 70 | $28 10 | $400 00 |
| | 40 00 | 25 95 | 30 35 | 1000 00 |
| | 50 00 | 31 50 | 37 00 | 1000 00 |
| | 60 00 | 37 05 | 43 65 | 1000 00 |
| | 60 00 | 40 80 | 47 40 | 2000 00 |
| | 60 00 | 44 55 | 51 15 | 3000 00 |
| | 80 00 | 59 40 | 68 20 | 4000 00 |
| | 90 00 | 64 95 | 74 85 | 4000 00 |
| | 100 00 | 74 25 | 85 25 | 5000 00 |
| | 50 00 | 37 12 | 42 62 | 2500 00 |
| Medium | $35 00 | $24 50 | $28 35 | $300 00 |
| | 35 00 | 28 17 | 32 02 | 1000 00 |
| | 40 00 | 31 45 | 35 85 | 1000 00 |
| | 50 00 | 38 00 | 43 50 | 1000 00 |
| | 50 00 | 43 25 | 48 75 | 2000 00 |
| Special | $30 00 | $35 20 | Not Sold to Men Over 50 | $400 00 |
| | 35 00 | 40 87 | | 450 00 |
| | 40 00 | 46 55 | | 500 00 |
| | 45 00 | 52 81 | | 600 00 |
| | 50 00 | 58 48 | | 650 00 |
| Hazardous | $25 00 | $34 38 | Not Sold to Men Over 50 | $300 00 |
| | 30 00 | 41 90 | | 400 00 |
| | 35 00 | 48 61 | | 450 00 |
| | 40 00 | 55 33 | | 500 00 |

Amounts for Select, Preferred and Extra Preferred Class may be doubled.

**ANNUAL PREMIUM ONLY**

XX

## SCOPE OF COMPENSATION LAWS OF THE UNITED STATES[1]

1. Inclusions:
   - A. Both hazardous and non-hazardous employments ..... 32
   - B. Hazardous employments only ..... 13
2. Exclusions:
   - A. Numerical exemptions ..... 22
   - B. Agriculture ..... 33
   - C. Domestic Service ..... 29
   - D. Casual labor and employment not for employer's business ..... 34
   - E. Employments not conducted for gain ..... 11
   - F. Public employments ..... 19
   - G. Other employments of certain kinds ..... 25
   - Total ..... 45

[1] Including Alaska, Hawaii, Porto Rico.

XXI

## COMPENSATION STATES CLASSIFIED ACCORDING TO WHETHER LAW IS COMPULSORY OR ELECTIVE

| *Compensation compulsory* (14) | | *Compensation elective* (31) | |
|---|---|---|---|
| *Insurance required* (13) | *Insurance not required* (1) | *Insurance required* (26) | *Insurance not required* (5) |
| California | Arizona | Colorado | Alabama |
| Hawaii | | Connecticut | Alaska |
| Idaho | | Delaware | Kansas |
| Illinois | | Indiana | Louisiana |
| Maryland | | Iowa | Minnesota |
| New York | | Kentucky | |
| North Dakota | | Maine | |
| Ohio | | Massachusetts | |
| Oklahoma | | Michigan | |
| Porto Rico | | Missouri | |
| Utah | | Montana | |
| Washington | | Nebraska | |
| Wyoming | | Nevada | |
| | | New Hampshire | |
| | | New Jersey | |
| | | New Mexico | |
| | | Oregon | |
| | | Pennsylvania | |
| | | Rhode Island | |
| | | South Dakota | |
| | | Tennessee | |
| | | Texas | |
| | | Vermont | |
| | | Virginia | |
| | | West Virginia | |
| | | Wisconsin | |

XXII

COMPULSORY INSURANCE STATES, CLASSIFIED AS TO DIFFERENT KINDS OF INSURANCE ALLOWED

| *State Fund* (17) | | *Private insurance* (31) | *Self-insurance* (31) |
|---|---|---|---|
| *Exclusive* (8) | *Competitive* (9) | | |
| Nevada | California | California | California |
| North Dakota | Colorado | Colorado | Colorado |
| Ohio | Idaho | Connecticut | Connecticut |
| Oregon | Maryland | Delaware | Delaware |
| Porto Rico | Michigan | Hawaii | Hawaii |
| Washington | Montana | Idaho | Idaho |
| West Virginia | New York | Illinois | Illinois |
| Wyoming | Pennsylvania | Indiana | Indiana |
| | Utah | Iowa | Iowa |
| | | Kentucky | Kentucky |
| | | Maine | Maine |
| | | Maryland | Maryland |
| | | Massachusetts | Michigan |
| | | Michigan | Missouri |
| | | Missouri | Montana |
| | | Montana | Nebraska |
| | | Nebraska | New Hampshire |
| | | New Hampshire | New Jersey |
| | | New Jersey | New Mexico |
| | | New Mexico | New York |
| | | New York | Ohio |
| | | Oklahoma | Oklahoma |
| | | Pennsylvania | Pennsylvania |
| | | Rhode Island | Rhode Island |
| | | South Dakota | South Dakota |
| | | Tennessee | Tennessee |
| | | Texas | Utah |
| | | Utah | Vermont |
| | | Vermont | Virginia |
| | | Virginia | West Virginia |
| | | Wisconsin | Wisconsin |

## XXIII

## UNIVERSAL STANDARD WORKMEN'S COMPENSATION POLICY

(Hereinafter called the Company)

**HEREBY AGREES WITH THE ASSURED**

Named in the Declarations attached hereto and forming part hereof, as respects personal injury sustained by employes, including death at any time resulting therefrom,

**One.** (a) **To Pay Promptly** to any person entitled thereto, under the Workmen's Compensation Law and in the manner therein provided, the entire amount of any sum due, and all installments thereof as they become due,

(*1*) *To such person because of the obligation for compensation for any such injury imposed upon or accepted by this Employer under such of certain statutes, as may be applicable thereto, cited and described in an endorsement attached to this Policy, each of which statutes is herein referred to as the Workmen's Compensation Law, and*

(*2*) *For the benefit of such person the proper cost of whatever medical, surgical, nurse or hospital services, medical or surgical apparatus or appliances and medicines, or, in the event of fatal injury, whatever funeral expenses are required by the provisions of such Workmen's Compensation Law.*

It is agreed that all of the provisions of each Workmen's Compensation Law covered hereby shall be and remain a part of this contract as fully and completely as if written herein, so far as they apply to compensation or other benefits for any personal injury or death covered by this Policy, while this Policy shall remain in force. Nothing herein contained shall operate to so extend this Policy as to include within its terms any Workmen's Compensation Law, scheme or plan not cited in an endorsement hereto attached.

**One.** (b) **To Indemnify** this Employer against loss by reason of the liability imposed upon him by law for damages on account of such injuries to such of said employes as are legally employed wherever such injuries may be sustained within the territorial limits of the United States of America or the Dominion of Canada. In the event of the bankruptcy or insolvency of this Employer the Company shall not be relieved from the payment of such indemnity hereunder as would have been payable but for such bankruptcy or insolvency. If, because of such bankruptcy or insolvency, an execution against this Employer is returned unsatisfied in an action brought by the injured, or by another person claiming by, through or under the injured, then an action may be maintained by the injured, or by such other person claiming by, through or under the injured, against the Company under the terms of this Policy for the amount of the judgment in said action not exceeding the amount of this Policy.

**Two. To Serve** this Employer (a) by the inspection of work places covered by the Policy when and as deemed desirable by the Company and thereupon to suggest to this Employer such changes or improvements as may operate to reduce the number or severity of injuries during work, and, (b) upon notice of such injuries, by investigation thereof and by settlement of any resulting claims in accordance with law.

**Three. To Defend,** in the name and on behalf of this Employer, any suits or other proceedings which may at any time be instituted against him on account of such injuries, including suits or other proceedings alleging such injuries and demanding damages or compensation therefor, although such suits, other proceedings, allegations or demands are wholly groundless, false or fraudulent.

**Four. To Pay** all costs taxed against this Employer in any legal proceeding defended by the Company, all interest accruing after entry of judgment and all expenses incurred by the Company for investigation, negotiation or defense.

**Five. This agreement shall apply** to such injuries sustained by any person or persons employed by this Employer whose entire remuneration shall be included in the total actual remuneration for which provision is hereinafter made, upon which remuneration the premium for this Policy is to be computed and adjusted, and, also to such injuries so sustained by the President, any Vice-President, Secretary or Treasurer of this Employer, if a corporation. The remuneration of any such designated officer shall not be subjected to a premium charge unless he is actually performing such duties as are ordinarily undertaken by a superintendent, foreman or workman.

**Six. This agreement shall apply** to such injuries so sustained by reason of the business operations described in said Declarations which, for the purpose of this insurance, shall include all operations necessary, incident or appurtenant thereto, or connected therewith, whether such operations are conducted at the work places defined and described in said Declarations or elsewhere in connection with, or in relation to, such work places.

**Seven. This agreement shall apply only** to such injuries so sustained by reason of accidents occurring during the Policy period limited and defined as such in Item 2 of said Declarations.

**THIS AGREEMENT IS SUBJECT TO THE FOLLOWING CONDITIONS:**

**A.** The premium is based upon the entire remuneration earned, during the Policy period, by all employes of this Employer engaged in the business operations described in said Declarations together with all operations necessary, incident or appurtenant thereto, or connected therewith whether conducted at such work places or elsewhere in connection therewith or in relation thereto; excepting however the remuneration of the President, any Vice-President, Secretary or Treasurer of this Employer, if a corporation, but including the remuneration of any one or more of such designated officers who are actually performing such duties as are ordinarily undertaken by a superintendent, foreman or workman. If any operations as above defined are undertaken by this Employer but are not described or rated in said Declarations, this Employer agrees to pay the premium thereon, at the time of the final adjustment of the premium in accordance with Condition C hereof, at the rates, and in compliance with the rules, of the Manual of Rates in use by the Company upon the date of issue of this Policy. At the end of the Policy period the actual amount of the remuneration earned by employes during such period shall be exhibited to the Company, as provided in Condition C hereof, and the earned premium adjusted in accordance therewith at the rates and under the conditions herein specified. If the earned premium, thus computed, is greater than the advance premium paid, this Employer shall immediately pay the additional amount to the Company, if less, the Company shall return to this Employer the unearned portion, but in any event the Company shall retain the Minimum Premium stated in said Declarations. All premiums provided by this Policy, or by any endorsement hereon, shall be fully earned whether any such Workmen's Compensation Law, or any part of such, is now or shall hereafter be declared invalid or unconstitutional.

**B.** This Policy may be cancelled at any time by either of the parties upon written notice to the other party stating

## XXIII—*Continued*

when, not less than ten days thereafter, cancellation shall be effective. The effective date of such cancellation shall then be the end of the Policy period. The law of any state, in which this Policy applies, which requires that notice of cancellation shall be given to any Board, Commission or other state agency is hereby made a part of this Policy and cancellation in such state shall not be effective except in compliance with such law. The remuneration of employes for the Policy period stated in said Declarations shall be computed upon the basis of the actual remuneration to the date of cancellation determined as herein provided. If such cancellation is at the Company's request, the earned premium shall be adjusted *pro rata* as provided in Condition A. If such cancellation is at this Employer's request, the earned premium shall be computed and adjusted at short rates, in accordance with the table printed hereon, but such short rate premium shall not be less than the Minimum Premium stated in said Declarations. If this Employer when requesting cancellation is actually retiring from the business herein described, then the earned premium shall be computed and adjusted *pro rata*. Notice of cancellation shall be served upon this Employer as the law requires, but, if no different requirement, notice mailed to the address of this Employer herein given shall be a sufficient notice, and the check of the Company, similarly mailed, a sufficient tender of any unearned premium.

**C.** The Company shall be permitted, at all reasonable times during the Policy period, to inspect the plants, works, machinery and appliances covered by this Policy, and to examine this Employer's books at any time during the Policy period, and any extension thereof, and within one year after its final expiration, so far as they relate to the remuneration earned by any employes of this Employer while this Policy was in force.

**D.** The obligations of **Paragraph One** (a) foregoing are hereby declared to be the direct obligations and promises of the Company to any injured employe covered hereby, or, in the event of his death, to his dependents; and to each such employe or such dependent the Company is hereby made directly and primarily liable under said obligations and promises. This contract is made for the benefit of such employes or such dependents and is enforceable against the Company, by any such employe or such dependent in his name or on his behalf, at any time and in any manner permitted by law, whether claims or proceedings are brought against the Company alone or jointly with this Employer. If the law of any state in which the Policy is applicable provides for the enforcement of the rights of such employes or such dependents by any Commission, Board or other state agency for the benefit of such employes or such dependents, then the provisions of such law are made a part hereof, as respects any matter subject thereto, as fully as if written herein. The obligations and promises of the Company as set forth in this paragraph shall not be affected by the failure of this Employer to do or refrain from doing any act required by the Policy; nor by any default of this Employer after the accident in the payment of premiums or in the giving of any notice required by the Policy or otherwise; nor by the death, insolvency, bankruptcy, legal incapacity or inability of this Employer, nor by any proceeding against him as a result of which the conduct of this Employer's business may be and continue to be in charge of an executor, administrator, receiver, trustee, assignee, or other person.

**E.** As between the employe and the Company, notice to or knowledge of this Employer of an injury or death covered hereby shall be notice or knowledge, as the case may be, of the Company; the jurisdiction of this Employer for the purposes of any Workmen's Compensation Law covered hereby shall be jurisdiction of the Company and the Company shall in all things be bound by and subject to the findings, judgments, awards, decrees, orders or decisions rendered against this Employer in the form and manner provided by such laws and within the terms, limitations and provisions of this Policy not inconsistent with such laws.

**F.** This Employer, upon the occurrence of an accident, shall give immediate written notice thereof to the Company with the fullest information obtainable. He shall give like notice with full particulars of any claim made on account of such accident. If, thereafter, any suit or other proceeding is instituted against this Employer, he shall immediately forward to the Company every summons, notice or other process served upon him. Nothing elsewhere contained in this Policy shall relieve this Employer of his obligations to the Company with respect to notice as herein imposed upon him.

**G.** No action shall lie against the Company to recover upon any claim or for any loss under **Paragraph One** (b) foregoing unless brought after the amount of such claim or loss shall have been fixed and rendered certain either by final judgment against this Employer after trial of the issue or by agreement between the parties with the written consent of the Company, nor in any event unless brought within two years thereafter.

**H.** If the method of serving notice of cancellation, or the limit of time for notice of accident or for any legal proceeding herein contained is at variance with any specific statutory provision in relation thereto, in force in the state in which any of the business operations herein described are conducted, such specific statutory provision shall supersede any such condition in this contract inconsistent therewith.

**I.** No assignment of interest under this Policy shall bind the Company unless the consent of the Company shall be endorsed hereon.

**J.** If this Employer carries any other insurance covering a claim covered by this Policy, he shall not recover from the Company a larger proportion of any such claim than the sum hereby insured bears to the whole amount of valid and collectible insurance.

**K.** The Company shall be subrogated in case of any payment under this Policy, to the extent of such payment, to all rights of recovery therefor vested by law either in this Employer, or in any employe or his dependents claiming hereunder, against persons, corporations, associations or estates.

**L.** No condition or provision of this Policy shall be waived or altered except by endorsement attached hereto signed by the President, a Vice-President, Secretary or an Assistant Secretary of the Company, nor shall notice to any agent, nor shall knowledge possessed by any agent, or by any other person, be held to effect a waiver or change in any part of this contract. Changes in the written portion of the Declarations forming a part hereof (except **Items 2, 3** and **4**) may be made by the agent countersigning this Policy, such changes binding the Company when initialed by such agent. The personal pronoun herein used to refer to this Employer or to an injured employe or dependents, shall apply regardless of number or gender.

**M.** The statements in **Items 1** to **6** inclusive in the Declarations hereinafter contained, are true; those stated as estimates only are believed to be true. This Policy is issued upon such statements and in consideration of the provisions of the Policy respecting its premium and the payment of the premium in such Declarations expressed.

**IN WITNESS WHEREOF,** the **INSURANCE COMPANY OF** has caused this Policy to be signed by its President and Secretary at Pennsylvania, and countersigned by a duly authorized Agent of the Company.

*Secretary* *President*

*Countersigned by*_____

*Agent*

XXIII—*Continued*

## Short Rate Cancellation Table

### For Term of One Year

| | | | | |
|---|---|---|---|---|
| 1 day | . . . . . | 2 | per cent. of annual | premium |
| 2 days | . . . . . | 4 | " | " |
| 3 " | . . . . . | 5 | " | " |
| 4 " | . . . . . | 6 | " | " |
| 5 " | . . . . . | 7 | " | " |
| 6 " | . . . . . | 8 | " | " |
| 7 " | . . . . . | 9 | " | " |
| 8 " | . . . . . | 9 | " | " |
| 9 " | . . . . . | 10 | " | " |
| 10 " | . . . . . | 10 | " | " |
| 11 " | . . . . . | 11 | " | " |
| 12 " | . . . . . | 12 | " | " |
| 13 " | . . . . . | 13 | " | " |
| 14 " | . . . . . | 13 | " | " |
| 15 " | . . . . . | 14 | " | " |
| 16 " | . . . . . | 14 | " | " |
| 17 " | . . . . . | 15 | " | " |
| 18 " | . . . . . | 16 | " | " |
| 19 " | . . . . . | 16 | " | " |
| 20 " | . . . . . | 17 | " | " |
| 25 " | . . . . . | 19 | " | " |
| 30 " | . . . . . | 20 | " | " |
| 35 " | . . . . . | 23 | " | " |
| 40 " | . . . . . | 26 | " | " |
| 45 " | . . . . . | 27 | " | " |
| 60 " | . . . . . | 28 | " | " |
| 55 " | . . . . . | 29 | " | " |
| 60 " | . . . . . | 30 | " | " |
| 65 " | . . . . . | 33 | " | " |
| 70 " | . . . . . | 36 | " | " |
| 75 " | . . . . . | 37 | " | " |
| 80 " | . . . . . | 38 | " | " |
| 85 " | . . . . . | 39 | " | " |
| 90 " | or 3 months . . . | 40 | " | " |
| 105 " | . . . . . | 45 | " | " |
| 120 " | or 4 months . . | 50 | " | " |
| 135 " | . . . . . | 55 | " | " |
| 150 " | or 5 months . . . | 60 | " | " |
| 165 " | . . . . . | 65 | " | " |
| 180 " | or 6 months . . . | 70 | " | " |
| 195 " | . . . . . | 73 | " | " |
| 210 " | or 7 months . . . | 75 | " | " |
| 225 " | . . . . . | 78 | " | " |
| 240 " | or 8 months . . . | 80 | " | " |
| 255 " | . . . . . | 83 | " | " |
| 270 " | or 9 months . . . | 85 | " | " |
| 285 " | . . . . . | 88 | " | " |
| 300 " | or 10 months . . | 90 | " | " |
| 315 " | . . . . . | 93 | " | " |
| 330 " | or 11 months . . | 95 | " | " |
| 340 " | or 12 months . . | 100 | " | " |

**UNIVERSAL STANDARD WORKMEN'S COMPENSATION POLICY**

EXPIRES _____

PREMIUM, $ _____

ASSURED _____

No. WC _____

INSURANCE COMPANY

PLEASE READ YOUR POLICY

XXIV

## SAMPLE CLASSIFICATION SHEET OF COMPENSATION MANUAL

*Revised Edition—Basic Manual June* 30, 1920.

| *Classification* | *No.* | *P.L.* | *Teams* |
|---|---|---|---|
| COAL MERCHANTS: | | | |
| Coal Merchants—receiving or shipping by water or by land and water, including stevedoring operations, if any | 8220 | ZH | QA |
| Drivers and their Helpers | 7212 | * | |
| Chauffeurs and their Helpers | 7385 | * | |
| This classification not available to concerns engaged exclusively in stevedoring. | | | |
| Coal Merchants—receiving or shipping by land only | 8230 | ZH | QA |
| Drivers and their Helpers | 7221 | * | |
| Chauffeurs and their Helpers | 7393 | * | |
| Cocoa Mfg | 2042 | ZA | R |
| Cocoanut Shredding and Drying (N. P. D.) (rate as 'Food Sundries") | 6504 | ZA | R |
| Coffee Cleaning, Roasting and Grinding (rate as "Food Sundries") | 6504 | ZA | R |
| COFFIN AND CASKET MFG.: | | | |
| Coffin and Casket—(wood) mfg. and assembling (including metal fittings) | 2804 | ZA | R |
| Coffin and Casket—(metal) mfg. and assembling | 3074 | ZA | R |
| Coffin and Casket—(concrete) mfg. and assembling | 4035 | ZA | R |
| Upholstery Work and Mfg. Burial Garments | 9525 | ZA | R |
| Coke Mfg.—(bee-hive) | 1469 | ZD | QA |
| Coke Mfg.—by-product ovens—no refining of by-products | 1470 | ZD | QA |
| Cold Storage Warehouses—operation | 8291 | ZG | R |
| Collar and Cuff Mfg.—including laundry | 2520 | Z | R |

*Payroll must be included in the Public Disability policy.

XXV

SAMPLE RATE SHEET OF COMPENSATION MANUAL

# NEW JERSEY.

## RATE SHEET.

The COMPENSATION RATES and MINIMUM PREMIUMS for this State are shown below opposite the CODE NUMBERS of the various classifications. NOTE: Symbol (a) means "refer to Home Office."

| Code No. | Rate | Min. Prem. | Code No. | Rate | Min. Prem. | Code No. | Rate | Min. Prem. | Code No. | Rate | Min. Prem. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 0004.. | .42.. | 8. | 1602.. | 3.86.. | 42. | 2063.. | 1.18.. | 16. | 2301.. | .20.. | 6. |
| 0005.. | .72.. | 11. | 1620.. | 3.86.. | 42. | 2065.. | 1.18.. | 16. | 2302.. | .20.. | 6. |
| 0006.. | .95.. | 14. | 1621.. | 3.86.. | 42. | 2067.. | 1.18.. | 16. | 2303.. | .20.. | 6. |
| 0008.. | .42.. | 8. | 1622.. | 3.86.. | 42. | 2081.. | 2.24.. | 26. | 2320.. | .61.. | 10. |
| 0050.. | 3.83.. | 42. | 1623.. | 3.86.. | 42. | 2090.. | .90.. | 13. | 2348.. | .78.. | 12. |
| 0100.. | 2.18.. | 26. | 1640.. | 2.92.. | 34. | 2091.. | .90.. | 13. | 2349.. | 1.28.. | 17. |
| 0101.. | 2.18.. | 26. | 1654.. | 3.86.. | 42. | 2092.. | .90.. | 13. | 2350.. | .78.. | 12. |
| 0251.. | .95.. | 14. | 1701.. | 1.76.. | 22. | 2101.. | 1.18.. | 16. | 2351.. | .61.. | 10. |
| 0301.. | 1.39.. | 18. | 1703.. | 1.59.. | 20. | 2102.. | .87.. | 13. | 2361.. | .19.. | 6. |
| 0302.. | 2.32.. | 27. | 1710.. | 3.13.. | 36. | 2105.. | .54.. | 9. | 2362.. | .36.. | 8. |
| 0400.. | 1.58.. | 20. | 1741.. | 1.59.. | 20. | 2110.. | 1.35.. | 18. | 2380.. | .32.. | 7. |
| 0401.. | 3.24.. | 36. | 1742.. | 1.59.. | 20. | 2111.. | 1.00.. | 14. | 2382.. | .32.. | 7. |
| 1102.. | 2.78.. | 32. | 1743.. | 1.59.. | 20. | 2112.. | .75.. | 12. | 2383.. | .34.. | 7. |
| 1120.. | 4.38.. | 48. | 1744.. | 1.59.. | 20. | 2114.. | .75.. | 12. | 2384.. | .32.. | 7. |
| 1121.. | 4.38.. | 48. | 1745.. | .74.. | 11. | 2121.. | 1.52.. | 19. | 2386.. | .30.. | 7. |
| 1154.. | 6.36.. | 70. | 1748.. | .65.. | 11. | 2125.. | 1.52.. | 19. | 2387.. | .32.. | 7. |
| 1164.. | 3.56.. | 40. | 1750.. | 1.79.. | 22. | 2130.. | 1.72.. | 21. | 2388.. | .30.. | 7. |
| 1165.. | 3.56.. | 40. | 1802.. | 1.27.. | 17. | 2143.. | 1.35.. | 18. | 2390.. | .32.. | 7. |
| 1200.. | 2.51.. | 29. | 1803.. | 1.27.. | 17. | 2150.. | 2.00.. | 24. | 2402.. | .62.. | 10. |
| 1201.. | 4.74.. | 50. | 1852.. | 1.24.. | 16. | 2161.. | 2.43.. | 28. | 2410.. | 1.48.. | 19. |
| 1217.. | 3.67.. | 40. | 1853.. | .74.. | 11. | 2165.. | 1.35.. | 18. | 2413.. | .82.. | 12. |
| 1301.. | 1.24.. | 16. | 1859.. | .78.. | 12. | 2173.. | .41.. | 8. | 2415.. | .82.. | 12. |
| 1321.. | 2.88.. | 32. | 1860.. | .82.. | 12. | 2174.. | 4.76.. | 50. | 2416.. | .53.. | 9. |
| 1410.. | .83.. | 12. | 1924.. | 1.38.. | 18. | 2175.. | .41.. | 8. | 2417.. | .75.. | 12. |
| 1413.. | 1.22.. | 16. | 2000.. | 1.11.. | 15. | 2176.. | .11.. | 6. | 2501.. | .21.. | 6. |
| 1420.. | 2.51.. | 29. | 2001.. | 1.11.. | 15. | 2210.. | 3.07.. | 34. | 2502.. | .21.. | 6. |
| 1421.. | 3.63.. | 40. | 2002.. | 2.29.. | 27. | 2211.. | 1.41.. | 18. | 2503.. | .21.. | 6. |
| 1438.. | 2.17.. | 26. | 2014.. | 1.42.. | 18. | 2216.. | 2.48.. | 29. | 2520.. | .21.. | 6. |
| 1439.. | 2.09.. | 25. | 2015.. | 1.24.. | 16. | 2220.. | .61.. | 10. | 2521.. | .21.. | 6. |
| 1452.. | 2.39.. | 28. | 2016.. | 1.11.. | 15. | 2222.. | .61.. | 10. | 2530.. | .33.. | 7. |
| 1463.. | 1.44.. | 18. | 2020.. | .99.. | 14. | 2260.. | 1.22.. | 16. | 2531.. | .21.. | 6. |
| 1465.. | 1.79.. | 22. | 2021.. | 1.14.. | 15. | 2263.. | 1.23.. | 16. | 2532.. | .21.. | 6. |
| 1470.. | 1.72.. | 21. | 2030.. | 2.09.. | 25. | 2264.. | 1.18.. | 16. | 2533.. | .19.. | 6. |
| 1471.. | 2.16.. | 26. | 2040.. | 1.22.. | 16. | 2269.. | 2.48.. | 29. | 2534.. | .21.. | 6. |
| 1472.. | 1.54.. | 19. | 2041.. | .81.. | 12. | 2280.. | 1.10.. | 15. | 2535.. | .21.. | 6. |
| | | | 2042.. | .81.. | 12. | 2286.. | .41.. | 8. | 2536.. | .35.. | 8. |
| | | | 2045.. | .81.. | 12. | 2288.. | 1.73.. | 21. | 2551.. | .21.. | 6. |
| | | | 2054.. | .61.. | 10. | 2291.. | .41.. | 8. | 2552.. | .19.. | 6. |
| | | | 2061.. | 1.18.. | 16. | 2309.. | .34.. | 7. | 2553.. | .21.. | 6. |
| | | | 2062.. | 1.18.. | 16. | | | | 2554.. | .21.. | 6. |

XXVI

COMPENSATION SCHEDULE RATE

PENNSYLVANIA *Elevator Definitions*

(4) The following items only, apply to cranes having manually operated travel and hoist:
166.

(5) The following items only, apply to I-Beam or monorail hoists with cage or cab:
163, 164, 165, 166.

(6) Locomotive Cranes shall not be considered under this section.

## 170 Elevators

**Definitions**

(1) **Elevator**
An elevator is a hoisting mechanism, either manually or mechanically operated, equipped with a car, cage or platform, which moves in guides in a vertical direction and which is designed to carry passengers or freight. This definition does not apply to dumbwaiters.

(2) **Passenger Elevator**
Passenger elevator is an elevator used primarily for the carrying of persons.

(3) **Freight Elevator**
Freight elevator is an elevator used primarily for the carrying of freight.

(4) **Elevator Shaftway**
Elevator shaftway shall mean any shaft opening in which an elevator car operates.

(5) **Elevator Machinery**
Elevator machinery shall mean all mechanism and equipment directly used in the operation of the elevator.

(6) **Elevator Car**
Elevator car shall mean the car, cage or platform which is operated in an elevator shaft or hoistway.

(7) **Dumbwaiters**
A dumbwaiter is a hoisting mechanism used for transferring freight only and constructed as follows:

Not more than nine (9) square feet platform area, car not over four (4) feet high, and not used to carry over five hundred (500) pounds.

XXVI—*Continued*

*Elevators* PENNSYLVANIA

(8) **Hand Hoists**

A hand hoist (whip hoist) is a hoisting mechanism manually or mechanically operated without a car, cage or platform operating in guides and is generally operated through one or more floor openings inside the building or near a wall opening on the outside of a building.

(9) **Hand Power Elevators**

Hand power elevators are elevators which are raised and lowered entirely by manual effort.

(10) **Auxiliary Power Attachments**

Elevators equipped with grip or other auxiliary power attachments shall be considered as power elevators.

171 **Charge** for each Elevator where there are any Beams, Floors or other projections in Shafts which form a **Shear** with floor of passing Elevator.

**1.0 point under item 119.**

**Rule**

(1) This item shall not apply to:

Hand Power Elevators

Hand Power Sidewalk Elevators.

**Definition**

(2) A shear in a shaftway is formed by an offset or projection such as floors, supports, beams, bolts or other fixed construction so located that an article extending two (2) inches beyond the edge of the car platform may strike it when the car is ascending.

**Standard**

(3) Sides of elevator shafts shall be smooth and free from projecting objects.

(4) Beams, floors and other projections, forming a shear with floor of passing elevator, shall be beveled.

(a) Substantial beveled metal or wood plates shall be installed under all projections, extending into shaft to within two (2) inches or less of floor of passing car.

XXVII

FINANCIAL STATEMENT OF A COMPENSATION MUTUAL

| | |
|---|---|
| Premium Income | $ 985,031.08 |
| Assets | 1,578,997.82 |
| Liabilities | 1,085,661.09 |
| Surplus | 493,336.73 |
| Loss Ratio | 49.37% |
| Expense Ratio | 14.71% |
| Earnings | 39.68% |

COMPARATIVE EXPERIENCE BY FISCAL YEARS ENDING JUNE 30

| | *Assets* | *Premiums Written* | *Expense Ratio* | *Loss Ratio* | *Surplus* | *Dividend* |
|---|---|---|---|---|---|---|
| 1 | $ 90,747.77 | $144,280.03 | 27.40% | 36.78% | $ 39,446.08 | 25% |
| 2 | 186,918.06 | 184,603.84 | 17.69% | 56.19% | 64,621.92 | 25% |
| 3 | 327,257.26 | 341,195.30 | 16.08% | 72.23% | 78,300.16 | 10% |
| 4 | 1,130.648.05 | 777,362.32 | 15.75% | 47.06% | 310,000.00 | *20% |
| 5 | 1,578,997.82 | 985,031.08 | 14.71% | 49.37% | 493,336.73 | †27½% |

*First half.
†Second half.

XXVIII

STATEMENT OF FINANCIAL CONDITION OF A STATE WORKMEN'S COMPENSATION INSURANCE FUND

| ASSETS | Dec. 31, 1916 | Dec. 31, 1917 | Dec. 31, 1918 | Dec. 31, 1919 |
|---|---|---|---|---|
| Investments | $492,823.00 | $1,204,370.32 | $2,772,583.58 | $3,985,105.19 |
| Cash on Deposit | 56,713.72 | 85,957.49 | 107,095.02 | 256,577.06 |
| Net Deferred and Uncollected Premiums | 22,466.28 | 85,143.67 | 108,011.96 | 142,984.00 |
| | $572,003.00 | $1,375,471.48 | $2,987,690.56 | $4,384,666.25 |
| Interest Accrued | 6,935.51 | 10,780.47 | 35,002.15 | 50,793.16 |
| Gross Payroll Audit Additions | 163,510.32 | 401,915.05 | 616,275.45 | 387,580.03 |
| Gross Merit Rating Additions | 8,918.08 | 14,430.47 | 10,910.37 | 23,762.63 |
| TOTAL | $751,366.91 | $1,802,597.47 | $3,649,878.53 | $4,846,802.10 |
| LIABILITIES | | | | |
| Reserve for Claim Losses to Maturity | $404,825.55 | $971,425.13 | $1,355,717.00 | $1,771,218.00 |
| Reserve for Possible Depreciation on Investments | | 25,000.00 | 75,000.00 | 100,000.00 |
| Reserve for Re-insurance Premium Payable | 2,377.35 | 12,234.72 | 6,122.00 | 18,081.96 |
| Reserve for Outstanding Accounts Payable | | | 5,311.36 | 5,376.23 |
| Reserve for Dividends Payable | 93,162.04 | 135,659.57 | 296,233.96 | 328,199.00 |
| TOTAL RESERVES. | $500,364.94 | $1,144,319.42 | $1,738,384.32 | $2,222,875.19 |
| Premiums Paid in Advance | $22,857.97 | $21,220.34 | $14,931.57 | $138,217.11 |
| Payroll Audit reductions | 42,020.18 | 41,013.75 | 44,366.25 | 104,875.09 |
| Merit Rating Reductions | 41,962.52 | 63,525.94 | 135,573.99 | 66,607.69 |
| Catastrophe Surplus | 68,049.84 | 144,707.84 | 268,355.69 | 368,436.00 |
| Fluctuation Surplus | | | 500,000.00 | 500,000.00 |
| General Surplus | 75,004.28 | 382,541.27 | 948,266.71 | 1,445,791.08 |
| TOTAL | $750,259.73 | $1,797,328.56 | $3,649,878.53 | $4,846,802.10 |

## XXIX

### EXTRACT FROM PAMPHLET OF PHILADELPHIA CONTRIBUTIONSHIP FOR INSURANCE

At the time the policy is issued. the insured makes a cash deposit with the company, according to the rate upon the amount insured, which on dwellings varies from 2% to 3½% dependent upon construction and location—whether in the city or country. No further payments of any kind are required, the interest earned by the company on the deposit taking the place of annual premiums on term insurance. This saves the insured all trouble of renewals and eliminates the danger of having the policy lapse.

If the policy is cancelled after five years, either by the assured or by the company, the deposit money is returned in full (prior to five years there is a deduction of 5% or 10%).

When a loss comes the company either rebuilds or settles on a cash basis—but in either event the policy is not affected (unless the loss be total) but continues in force, without additional deposit, for the full amount as before the fire.

When the deposit money has remained with the company for ten years, it participates in any dividends that may be declared, which, for the past sixteen years, have been at the rate of 10% per annum.

XXX

## NEW YORK STANDARD FIRE POLICY

STOCK COMPANY

No. _____

The _____ Insurance Company

Amount $_____ Rate _____ Premium $_____

In Consideration of the Stipulations herein named

and of _____ Dollars Premium

does insure _____

and legal representatives, to the extent of the actual cash value (ascertained with proper deductions for depreciation) of the property at the time of loss or damage, but not exceeding the amount which it would cost to repair or replace the same with material of like kind and quality within a reasonable time after such loss or damage, without allowance for any increased cost of repair or reconstruction by reason of any ordinance or law regulating construction or repair and without compensation for loss resulting from interruption of business or manufacture, for the term of _____

from the _____ day of _____ 19____, at noon,

to the _____ day of _____ 19____, at noon,

against all DIRECT LOSS AND DAMAGE BY FIRE and by removal from premises endangered by fire, except as herein provided, to an amount not exceeding _____ Dollars to the following described property while located and contained as described herein, or pro rata for five days at each proper place to which any of the property shall necessarily be removed for preservation from fire, but not elsewhere, to wit:

This policy is made and accepted subject to the foregoing stipulations and conditions, and to the stipulations and conditions printed on the back hereof, which are hereby made a part of this policy, together with such other provisions, stipulations and conditions as may be endorsed hereon or added hereto as herein provided.

**In Witness Whereof,** this Company has executed and attested these presents, but this policy shall not be valid until countersigned by the duly authorized Agent of the Company at

SECRETARY. PRESIDENT.

Countersigned at

this _____ day of _____ 19____ _____ Agent

## XXX—*Continued*

**Fraud, misrepresentation, etc.** This entire policy shall be void if the insured has concealed or misrepresented any material fact or circumstance concerning this insurance or the subject thereof; or in case of any fraud or false swearing by the insured touching any matter relating to this insurance or the subject thereof, whether before or after a loss

**Uninsurable and Excepted property.** This policy shall not cover accounts, bills, currency, deeds, evidences of debt, money, notes or securities; nor, unless specifically named hereon in writing, bullion, manuscripts, mechanical drawings, dies or patterns

**Hazards not covered.** This Company shall not be liable for loss or damage caused directly or indirectly by invasion, insurrection, riot, civil war or commotion, or military or usurped power, or by order of any civil authority; or by theft; or by neglect of the insured to use all reasonable means to save and preserve the property at and after a fire or when the property is endangered by fire in neighboring premises.

This entire policy shall be void, unless otherwise provided by agreement in writing added hereto,

**Ownership, etc.** (a) if the interest of the insured be other than unconditional and sole ownership; or (b) if the subject of insurance be a building on ground not owned by the insured in fee simple; or (c) if, with the knowledge of the insured, foreclosure proceedings be commenced or notice given of sale of any property insured hereunder by reason of any mortgage or trust deed; or (d) if any change, other than by the death of an insured, take place in the interest, title or possession of the subject of insurance (except change of occupants without increase of hazard); or (e) if this policy be assigned before a loss

Unless otherwise provided by agreement in writing added hereto this Company shall not be liable for loss or damage occurring

**Other insurance.** (a) while the insured shall have any other contract of insurance, whether valid or not, on property covered in whole or in part by this policy; or

**Increase of hazard.** (b) while the hazard is increased by any means within the control or knowledge of the insured, or

**Repairs, etc.** (c) while mechanics are employed in building altering or repairing the described premises beyond a period of fifteen days; or

**Explosives, gas, etc.** (d) while illuminating gas or vapor is generated on the described premises, or while (any usage or custom to the contrary notwithstanding) there is kept, used or allowed on the described premises fireworks, greek fire, phosphorus, explosives, benzine gasolene, naphtha or any other petroleum product of greater inflammability than kerosene oil, gunpowder exceeding twenty-five pounds, or kerosene oil exceeding five barrels, or

**Factories.** (e) if the subject of insurance be a manufacturing establishment while operated in whole or in part between the hours of ten P. M. and five A. M., or while it ceases to be operated beyond a period of ten days; or

**Unoccupancy.** (f) while a described building, whether intended for occupancy by owner or tenant, is vacant or unoccupied beyond a period of ten days, or

**Explosion, Lightning.** (g) by explosion or lightning, unless fire ensue, and, in that event, for loss or damage by fire only.

**Chattel mortgage.** Unless otherwise provided by agreement in writing added hereto this Company shall not be liable for loss or damage to any property insured hereunder while incumbered by a chattel mortgage, and during the time of such incumbrance this Company shall be liable only for loss or damage to any other property insured hereunder.

**Fall of building.** If a building, or any material part thereof fall except as the result of fire, all insurance by this policy on such building or its contents shall immediately cease.

**Added Clauses.** The extent of the application of insurance under this policy and of the contribution to be made by this Company in case of loss or damage, and any other agreement not inconsistent with or a waiver of any of the conditions or provisions of this policy, may be provided for by agreement in writing added hereto

**Waiver.** No one shall have power to waive any provision or condition of this policy except such as by the terms of this policy may be the subject of agreement added hereto, nor shall any such provision or condition be held to be waived unless such waiver shall be in writing added hereto, nor shall any provision or condition of this policy or any forfeiture be held to be waived by any requirement, act or proceeding on the part of this Company relating to appraisal or to any examination herein provided for; nor shall any privilege or permission affecting the insurance hereunder exist or be claimed by the insured unless granted herein or by rider added hereto

**Cancellation of policy.** This policy shall be cancelled at any time at the request of the insured, in which case the Company shall, upon demand and surrender of this policy, refund the excess of paid premium above the customary short rates for the expired time. This policy may be cancelled at any time by the Company by giving to the insured a five days' written notice of cancellation with or without tender of the excess of paid premium above the pro rata premium for the expired time, which excess, if not tendered shall be refunded on demand. Notice of cancellation shall state that said excess premium (if not tendered) will be refunded on demand.

**Pro rata liability.** This Company shall not be liable for a greater proportion of any loss or damage than the amount hereby insured shall bear to the whole insurance covering the property, whether valid or not and whether collectible or not

**Noon.** The word "noon" herein means noon of standard time at the place of loss or damage

**Mortgagee interests.** If loss or damage is made payable, in whole or in part, to a mortgagee not named herein as the insured, this policy may be cancelled as to such interest by giving to such mortgagee a ten days' written notice of cancellation. Upon failure of the insured to render proof of loss such mortgagee shall, as if named as insured hereunder, but within sixty days after notice of such failure, render proof of loss and shall be subject to the provisions hereof as to appraisal and times of payment and of bringing suit. On payment to such mortgagee of any sum for loss or damage hereunder, if this Company shall claim that as to the mortgagor or owner, no liability existed, it shall, to the extent of such payment be subrogated to the mortgagee's right of recovery and claim upon the collateral of the mortgage debt, but without impairing the mortgagee's right to sue, or it may pay the mortgage debt and require an assignment thereof and of the mortgage. Other provisions relating to the interests and obligations of such mortgagee may be added hereto by agreement in writing

**Requirements in case of loss.** The insured shall give immediate notice, in writing, to this Company, of any loss or damage, protect the property from further damage, forthwith separate the damaged and undamaged personal property, put it in the best possible order, furnish a complete inventory of the destroyed, damaged and undamaged property, stating the quantity and cost of each article and the amount claimed thereon; and, the insured shall, within sixty days after the fire, unless such time is extended in writing by this Company, render to this Company a proof of loss, signed and sworn to by the insured, stating the knowledge and belief of the insured as to the following: the time and origin of the fire, the interest of the insured and of all others in the property, the cash value of each item thereof and the amount of loss or damage thereto, all incumbrances thereon, all other contracts of insurance, whether valid or not, covering any of said property, any changes in the title, use, occupation, location, possession, or exposures of said property since the issuing of this policy, by whom and for what purpose any building herein described and the several parts thereof were occupied at the time of fire; and shall furnish a copy of all the descriptions and schedules in all policies and if required, verified plans and specifications of any building, fixtures or machinery destroyed or damaged. The insured, as often as may be reasonably required, shall exhibit to any person designated by this Company all that remains of any property herein described, and submit to examinations under oath by any person named by this Company, and subscribe the same; and, as often as may be reasonably required, shall produce for examination all books of account, bills, invoices, and other vouchers, or certified copies thereof, if originals be lost, at such reasonable time and place as may be designated by this Company or its representatives, and shall permit extracts and copies thereof to be made.

**Appraisal.** In case the insured and this Company shall fail to agree as to the amount of loss or damage, each shall, on the written demand of either, select a competent and disinterested appraiser. The appraisers shall first select a competent and disinterested umpire; and failing for fifteen days to agree upon such umpire then, on request of the insured or this Company, such umpire shall be selected by a judge of a court of record in the state in which the property insured is located. The appraisers shall then appraise the loss and damage stating separately sound value and loss or damage to each item; and failing to agree, shall submit their differences only, to the umpire. An award in writing, so itemized, of any two when filed with this Company shall determine the amount of sound value and loss or damage. Each appraiser shall be paid by the party selecting him and the expenses of appraisal and umpire shall be paid by the parties equally

**Company's options.** It shall be optional with this Company to take all, or any part, of the articles at the agreed or appraised value, and also to repair, rebuild, or replace the property lost or damaged with other of like kind and quality within a reasonable time, on giving notice of its intention so to do within thirty days after the receipt of the proof of loss herein required; but there can be no abandonment to this Company of any property

**Abandonment.**

**When loss payable.** The amount of loss or damage for which this Company may be liable shall be payable sixty days after proof of loss, as herein provided, is received by this Company and ascertainment of the loss or damage is made either by agreement between the insured and this Company expressed in writing or by the filing with this Company of an award as herein provided.

**Suit.** No suit or action on this policy, for the recovery of any claim, shall be sustainable in any court of law or equity unless all the requirements of this policy shall have been complied with, nor unless commenced within twelve months next after the fire.

**Subrogation.** This Company may require from the insured an assignment of all right of recovery against any party for loss or damage to the extent that payment therefor is made by this Company.

XXX—*Continued*

## ASSIGNMENT OF INTEREST BY INSURED

The interest of.....as owner of the property covered by this Policy is hereby assigned to.....subject to the consent of THE INSURANCE COMPANY, NEW YORK.

.....
(Signature of the Insured)

Dated.....19.....

## CONSENT BY COMPANY TO ASSIGNMENT OF INTEREST

THE INSURANCE COMPANY, NEW YORK. hereby consents that the interest of .....as owner of the property covered by this Policy be assigned to.....

.....Agent.

Dated.....19.....

No. of Policy.....
No. of Renewal.....
Amount Insured.....

| | YEAR | MO. | DAY |
|---|---|---|---|
| Date of Cancellation | | | |
| " Policy - - | | | |
| Time in force - - | | | |

Premium Paid.....$.....
" Earned at.....rate $.....
" Returned, $.....
IF PRO RATA, STATE REASON WHY.

80M-8&C

## Receipt for Return Premium

To be signed by the Assured

THE INSURANCE COMPANY

.....Agency.....19.....

IN CONSIDERATION OF

.....Dollars return premium, receipt of which is hereby acknowledged, this Policy is hereby cancelled and surrendered to the Company

.....
Assured.

XXXI

REDUCED RATE CLAUSE (CO-INSURANCE)

In consideration of the reduced rate of premium for which this Policy is written the standard 80 per cent. Co-insurance Clause of the State of New Jersey is attached to and made a part of this Policy.

NEW JERSEY STANDARD PERCENTAGE CO-INSURANCE CLAUSE

If at the time of fire the whole amount of insurance on the property covered by this Policy shall be less than.....per cent. of the actual cash value thereof, this Company shall, in case of loss or damage, be liable for only such portion of such loss or damage as the amount insured by this Policy shall bear to the said.....per cent. of the actual cash value of such property.

If this Policy be divided into two or more items, the foregoing conditions shall apply to each item separately.

Attached to and forming part of Policy No.....of the ..... Agency of The ..... Insurance ..... Company,

.....Agent

XXXII

MORTGAGEE CLAUSE

*N. Y. and New Jersey Standard*

Loss, or damage, if any, under this Policy, shall be payable to.....

.....

as.....mortgagee. [or trustee] as interest may appear, and this insurance, as to the interest of the mortgagee [or trustee] only therein shall not be invalidated by any act or neglect of the mortgagor or owner of the within described property, nor by any foreclosure or other proceedings or notice of sale relating to the property, nor by any change in the title or ownership of the property, nor by the occupation of the premises for purposes more hazardous than are permitted by this Policy; Provided, that in case the mortgagor or owner shall neglect to pay any premium due under this Policy, the mortgagee [or trustee] shall on demand pay the same.

Provided also, that the mortgagee [or trustee] shall notify this Company of any change of ownership or occupancy or increase of hazard which shall come to the knowledge of said mortgagee [or trustee] and unless, permitted by this Policy, it shall be noted thereon and the mortgagee [or trustee] shall, on demand, pay the premium for such increased hazard for the term of the use thereof; otherwise this Policy shall be null and void.

This Company reserves the right to cancel this Policy at any time as provided by its terms, but in such case this Policy shall continue in force for the benefit only of the mortgagee [or trustee] for ten days after the notice to the mortgagee [or trustee] of such cancellation and shall then cease, and this Company shall have the right, on like notice, to cancel this agreement.

Whenever this Company shall pay the mortgagee [or trustee] any sum for loss or damage under this Policy and shall claim that, as to the Mortgagor or owner, no liability therefor existed, this Company shall, to the extent of such payment, be thereupon legally subrogated to all the rights of the party

to whom such payment shall be made, under all securities held as collateral to the mortgage debt, or may at its option, pay to the mortgagee [or trustee] the whole principal due or to grow due on the mortgage with interest, and shall thereupon receive a full assignment and transfer of the mortgage and all such other securities; but no subrogation shall impair the right of the mortgagee [or trustee] to recover the full amount of .....claim.

Attached to and forming part of Policy No.....issued at.....

Agency of The ..... Insurance Company, .....

Dated .....

..... Agent

## XXXIII

## MORTGAGE CLAUSE WITH FULL CONTRIBUTION

*N. Y. and New Jersey Standard*

Same as above with the addition of the following clause:

In case of any other insurance upon the within described property this Company shall not be liable under this policy for a greater proportion of any loss or damage sustained than the sum hereby insured bears to the whole amount of insurance on said property, issued to or held by any party or parties having an insurable interest therein, whether as owner, mortgagee or otherwise

## XXXIV

## EXCESS FLOATER

On merchandise, chiefly.....own, or held by.....in trust or on commission, or on joint account with others, or sold but not removed, and not under the protection of a Marine Policy, while contained in all or any of the brick or stone storage warehouses, and while in transit in or on any of the streets, depots, yards or wharves in the City of....., and in any ship or vessel in the port of said city, subject to the following conditions:—

### REDUCED RATE AVERAGE CLAUSE

In consideration of the reduced rate at which this policy is written, it is expressly stipulated and made a condition of this contract that this company shall be liable for no greater proportion of any loss than the amount hereby insured bears to the actual cash value of the property described herein at the time when such loss shall happen, nor for more than the proportion which this policy bears to the total insurance thereon.

If this policy be divided into two or more items, the foregoing conditions shall apply to each item separately: and if two or more buildings or their contents be included in a single item, the application of the provision as to special inventory or appraisement shall be limited to each building and its contents.

### EXCEPTION CLAUSE

It is understood and agreed that goods on which the insured shall have a specific insurance are not covered by this policy except so far only as relates to any excess of value above such specific insurance, and that this policy shall be liable only for its proportion of any loss, on such property, which exceeds such specific insurance.

## XXXV

## HOUSEHOLD FORM

On Household and Kitchen Furniture of every description. useful and ornamental, Beds, Bedding, Linen, Wearing Apparel, Printed Books, Pictures, Paintings and their frames, Sculpture, Works of Art, Silver and Plated Ware, China and Glassware, Mirrors, Musical and Scientific Instruments, Watches, Jewelry, Sewing Machines, Gas Fixtures, Family Stores, Tools, Bicycles and all other Sporting Implements, Awnings contained in or attached to the Building and all articles generally used in housekeeping, the property of the Assured, or any member of his family, while contained in Brick Building as a dwelling

situate No..... Street, Philadelphia.....

.....

In case of loss or damage to Paintings, Statuary or Works of Art no one subject to be valued at more than the actual cash price paid for the same by Assured.

Privilege of other insurance without notice until required; to make additions, alterations and repairs and this policy to cover in same; to use gas and kerosene oil for light, heat and cooking; for building to remain unoccupied during any part of the year, and to keep and use not exceeding one quart of gasoline or benzine for cleaning purposes.....without prejudice to this policy.

## XXXVI

## LIGHTNING CLAUSE

(Excluding Damage to Electrical Apparatus.)

This policy shall cover any direct loss or damage caused by lightning (meaning thereby the commonly accepted use of the term lightning and in no case to include loss or damage by cyclone, tornado, or wind-storm), not exceeding the sum insured, nor the interest of the insured in the property, and subject in all other respects to the terms and conditions of this policy. PROVIDED, however, that if there shall be any other insurance on said property this company shall be liable only pro rata with such other insurance for any direct loss by lightning, whether such other insurance be against direct loss by lightning or not; and provided further that, if dynamos, wiring, lamps, motors. switches or other electrical appliances or devices are insured by this policy, this company shall not be liable for any loss or damage to such property resulting from any electrical injury or disturbance, whether from artificial or natural causes, unless fire ensues, and then for the loss by fire only.

Permission is granted under this policy for the use of electric current after Certificate of approval has been issued by the Philadelphia Fire Underwriters Association and while it remains unrevoked by said Assocation.

Attached to Policy No..... The.....Insurance Company of Philadelphia. .....Secretary.

XXXVII

LOSS PAYABLE CLAUSE

Loss, if any, payable to.....Mortgagee, as .....interest may appear, subject nevertheless to all the conditions of this Policy.

Attached to and forming part of Policy No.....of The.....Insurance Company, .....issued to.....at the .....Agency

Date of Endorsement.....19

..... Agent

XXXVIII

GASOLINE, ETC., PERMIT

Permission is hereby given to keep and use not more than.....quarts of..... in any one day, it being warranted by the insured that, in consideration of the reduced rate at which this policy is issued, not more than one quart of.....will be kept or used by the insured in any one story of the building in any one day; that the.....will be kept in and used from approved safety cans (or pots) and kept outside of the building at night.

XXXIX

SPRINKLER LEAKAGE FORM

Does insure.....for the term of.....from the.....day of.....19....., at noon, to the.....day of.....19....., at noon, to an amount not exceeding..... dollars, to wit: Against all direct loss or damage caused by the accidental discharge or leakage of water from the automatic sprinkler system, including tanks supplying it. except as hereinafter provided, in or on the buildings now erected and occupied wholly or partly by the assured (whether the accident occurs in the portion occupied by the assured or not), described and located as follows.....

And the company shall be liable under this contract for all direct loss or damage sustained by the assured occasioned by such discharge or leakage, provided same is caused by any accident (including freezing), and applying to all property, real or personal owned by the assured, or to the property of others held by the assured in trust or on commission, or sold, but not removed, and for which the assured is legally liable, while situate upon the premises above described, but this company shall not be liable for loss or damage occasioned by such discharge or leakage, when such discharge or leakage is caused by fire, lightning, earthquake, explosion, invasion of foreign enemies, civil commotions, riots, any military or usurped power, order of civil authority, or any fraudulent act of the assured. It is further understood and agreed that the entire liability of this company under this contract shall under no circumstances exceed the sum insured, for any loss, claim, or damage whatsoever, and that this company shall not be liable under this contract for any loss or damage to the automatic sprinkler system itself.

## XL

## BUSINESS INTERRUPTION INDEMNITY

Use and Occupancy Insurance.

$..... On the use and occupancy of.....

.....

.....

.....

.....

situate..... Town of.....

State of.....and occupied for.....

The word "business" wherever used in this contract shall be considered and held to have the following meaning according to the class of property insured:

(a) In a MANUFACTURING property: "The production of goods."

(b) In a MERCANTILE property: "The sale of goods."

(c) In OTHER CLASSES of property: "The carrying on of the business operations usual to the class."

The word "day," however modified, wherever used in this contract shall be held to cover a period of twenty-four (24) hours.

If the said building , or machinery or equipment or stock contained therein be destroyed or damaged by fire occurring during the life of this policy so as to necessitate a total or partial suspension of business, this Company shall be liable under this policy for the actual loss sustained of net profits on the business which is thereby prevented, and for such fixed charges and expenses as must necessarily continue during a total or partial suspension of business, for not exceeding such length of time as shall be required with the exercise of due diligence and dispatch to rebuild, repair or replace such part of said building , and machinery and equipment and stock as may be destroyed or damaged, commencing with the date of the fire and not limited by the date of expiration of this policy, under the following terms and conditions, to wit:

During the time of a total suspension of business, liability under this policy shall not exceed the following amounts for each business day of such suspension.

For each business day from.....to noon the following.....(incl.) $.....

For each business day from.....to noon the following.....(incl.) $.....

For each business day from.....to noon the following.....(incl.) $.....

For each business day from.....to noon the following.....(incl.) $.....

For each business day from.....to noon the following.....(incl.) $.....

For each business day from.....to noon the following.....(incl.) $.....

For each business day from.....to noon the following.....(incl.) $.....

For each business day from.....to noon the following.....(incl.) $.....

For each business day from.....to noon the following.....(incl.) $.....

For each business day from.....to noon the following.....(incl.) $.....

For each business day from.....to noon the following.....(incl.) $.....

For each business day from.....to noon the following.....(incl.) $.....

For each business day from.....to noon the following.....(incl.) $.....

During the time of a partial suspension of business, the per diem liability under this policy shall not exceed that proportion of the per diem liability which would have been incurred by a total suspension which the decrease in production (or business) bears to the full daily production (or business) at the time of the fire.

It is a condition of this insurance that the daily production (or business) at the time of the fire shall be based upon the average daily production (or business) of all plants or properties herein described for the.....days of full operation next preceding the fire.

Liability hereunder shall not exceed the amount of insurance by this policy nor a greater proportion of any loss than the insurance hereunder shall bear to all insurance, whether valid or not, covering in any manner the loss insured against by this policy.

## XL—*Continued*

It is a condition of this insurance that the assured shall not be entitled to compensation on account of delay which may be occasioned by any ordinance or law regulating construction or repair of buildings, or by the suspension, lapse or cancellation of any license, or for any other consequential damage.

It is a condition of this insurance that if covering on replacement of stock in a manufacturing property:

First—That no liability is assumed on account of damage to the finished product or for the time required to reproduce any finished product which may be damaged.

Second—That liability for curtailment of production due to damage to, or loss of, raw materials shall be limited to that period of time for which the damaged or destroyed raw materials would have furnished operating conditions for the plant. No liability shall exist on this account, unless or until actual curtailment of production shall have occurred through the assured's inability to procure suitable materials to take the place of those damaged or destroyed.

It is a condition of this insurance that as soon as practicable after any loss, the assured shall resume complete or partial operation of the property herein described and shall make use of other property, if obtainable, if by so doing the amount of loss hereunder will be reduced, and in the event of the assured continuing business, in whole or in part, at some other location or using other property during the time occupied in repairing or reconstructing the property named herein, the net profits so earned shall be applied to the reduction of the loss and adjustment shall be made as provided herein for partial losses.

Surplus machinery or duplicate parts thereof, equipment or supplies, surplus or reserve stock, which may be owned, controlled or used by the assured shall, in the event of loss, be used in placing the property in condition for the resumption of business.

In case the assured and this Company are unable to agree as to any question affecting the amount of loss under this policy, the same shall be determined by appraisers in the manner provided by the policy to which this form is attached, the provisions of which policy shall govern in all matters pertaining to this insurance, except as herein otherwise provided.

Other concurrent insurance permitted.

Permission is granted under this policy for the use of Electric Current after certificate of approval has been issued by the Fire Underwriters' Association and while it remains unrevoked by said Association.

**Permit for Alterations and Repairs.**—In addition to the privilege contained in the printed conditions of this policy permission is hereby given to make ordinary alterations and repairs in the within-described premises, but this shall not be held to include the reconstruction or the enlargement of the same.

**Permit to Cease Operation.**—Permission is hereby granted to cease operation not exceeding sixty (60) consecutive days, in addition to the period of ten (10) days granted under the printed conditions of this policy, but this shall not be held to annul the privilege to cease operations for a period of ten (10) days at any one time.

**Warranty:** In consideration that no additional premium is charged for this permit to cease operations, it is warranted by the insured and made a condition of the insurance that all fire extinguishing appliances and apparatus installed on said premises shall be maintained in complete working order and that one or more watchmen shall be continuously on duty day and night during the time named in this permit, and be required to make hourly rounds of inspection, recording same on watchman's time recording clock.

**Lightning Clause.**—Except as provided in the Electrical Exemption Clause below, this policy shall cover use and occupancy loss caused by lightning (meaning thereby the commonly accepted use of the term lightning, and in no case to include loss or damage by cyclone, tornado or wind-storm) not exceeding the sum insured, nor the interest of the assured in the property. Provided, however, if there shall be any other use and occupancy insurance on said property, this Company shall be liable only pro rata with such other insurance for any use and occupancy loss by lightning, whether such insurance be against loss by lightning or not.

**Electrical Exemption Clause.**—It is a special condition of this policy that this Company shall not be liable for any use and occupancy loss resulting from damage to dynamos, exciters, lamps, switches, motors and other electrical appliances or devices caused by electrical currents, whether artificial or natural, including lightning.

Attached to and made a part of Policy No.....of the.....

Insurance Company of.....

.....Agent.

XLI

BINDER

*Agency,* .....*Date,* .....

Effective at noon on the above date, and subject to the terms and conditions of the Standard Insurance Policy, we have bound the .....INSURANCE COMPANY,..... .

for.....Dollars ($.....), covering against loss or damage by fire and lightning to the following described property:

Name of Assured,.....

Term for which Policy will be issued,.....,.....

Location: Map Page....., Blk.....,Street No.....

..... .....

It is understood and agreed that this binder continues for a period of TEN DAYS from date of issue, or until the issue of a Standard Policy covering said property, or until twelve o'clock noon of the second business day after written notice of cancellation to the assured, or to the broker placing this insurance, whichever of said three events first occurs.

Remarks .....

.....

.....

.....*Agent*

XLII

CANCELLATION NOTICE TO MORTGAGEE FOR NON-PAYMENT OF PREMIUM

☞ I, the undersigned, do hereby certify that the Original of this Copy was registered by me to the party named in this notice, on the.....day of ....., 19.....

.....

THE ..... INSURANCE COMPANY, .....

*Agency at*.....

*Date*....., *19*.....

.....

.....

.....

Because of non-payment of the premium of $....., we cancel the Mortgage Agreement attached to and made a part of our Policy No. ....., issued to.....on....., 19....., covering on .....at....., and made payable to you as mortgagee (or trustee), in the event of loss, and hereby give you ten (10) days' notice thereof, as provided by the terms of said mortgagee clause and the Policy.

Please take notice that on the.....day of....., 19....., at twelve o'clock noon, or, if that date is not ten (10) days from the receipt hereof, then at the expiration of ten (10) days from its receipt, the said Agreement will cease to be in force.

Yours truly,

THE ..... INSURANCE COMPANY,

*Per*.....

*Agent*

XLIII

RENEWAL RECEIPT

Amount, $..... Premium, $.....

THE ..... INSURANCE COMPANY of .....

Insured.....

In Consideration of.....Dollars being the premium on.....Policy No.....is hereby renewed and continued in force for.....to wit, from the..... day of.....19 ....., at noon until the..... day of.....19....., at noon.

*Dated*.....

THE ..... INSURANCE COMPANY,

Per.....

*Agent*

XLIV

SHORT RATE TABLE FOR ONE YEAR POLICIES

| *Time Days* | *Percentage to be Charged or Retained* | *Time Days* | *Percentage to be Charged or Retained* | *Time Days* | *Percentage to be Charged or Retained* |
|---|---|---|---|---|---|
| 1 | 2 | 19 | 16 | 135 | 56 |
| 2 | 4 | 20 | 17 | 150 (5 mo.) | 60 |
| 3 | 5 | 25 | 19 | 165 | 66 |
| 4 | 6 | 30 (1 mo.) | 20 | 180 (6 mo.) | 70 |
| 5 | 7 | 35 | 23 | 195 | 73 |
| 6 | 8 | 40 | 25 | 210 (7 mo.) | 75 |
| 7 | 9 | 45 | 27 | 225 | 78 |
| 8 | 9 | 50 | 28 | 240 (8 mo.) | 80 |
| 9 | 10 | 55 | 29 | 255 | 83 |
| 10 | 10 | 60 (2mo.) | 30 | 270 (9 mo.) | 85 |
| 11 | 11 | 65 | 33 | 285 | 88 |
| 12 | 11 | 70 | 36 | 300 (10 mo.) | 90 |
| 13 | 12 | 75 | 37 | 315 | 93 |
| 14 | 13 | 80 | 38 | 330 (11 mo.) | 95 |
| 15 | 13 | 85 | 39 | 345 | 98 |
| 16 | 14 | 90 (3 mo.) | 40 | 360 (12 mo.) | 100 |
| 17 | 15 | 105 | 46 | | |
| 18 | 16 | 120 (4 mo.) | 50 | | |

XLV

## AGREEMENT FOR SUBMISSION TO APPRAISERS.

**It is hereby agreed** by ..... of the first part, and the ..... Ins. Co. of ..... or companies whose name or names are signed hereto, of the second part, each for itself and not jointly, they having failed to agree as to the amount of loss or damage by fire, which occurred on the ..... day of ..... 190....., to property described in policy No. ..... issued to said party of the first part by the party of the second part, which policy is hereby referred to and made a part of this agreement, that .....

.....

(together with a third person to be first appointed by them, as required by said policy of insurance, who shall act as umpire upon matters of difference only) shall appraise and estimate the actual cash value of, and the loss and damage by fire to, the property as enumerated in schedule or description herewith, which loss or damage shall be ascertained or estimated according to such actual cash value with proper deduction for depreciation however caused, and shall in no event exceed what it would then cost the assured to repair or replace the same; which appraisement and estimate by them, or any two of them, in writing, as to the amount of such value and loss or damage shall be binding on both parties, it being understood that the appointment is of binding effect only so far as regards the actual cash value of, and loss or damage to, said property.

The property on which sound value and damage is to be estimated and appraised is described in the policy above mentioned as follows:

.....

.....

.....

.....

.....

.....

.....

.....

.....

Goods damaged by removal shall be specified separately.

It is expressly understood and agreed that in entering into this agreement the said Insurance Company shall not be held to have waived any provisions or conditions of this policy, or any forfeiture thereof, by any requirement, act or proceedings on its part relating to the appraisal.

**Witness** our hands at .....
this ..... day of ..... 190

.....

.....

.....

.....

XLV—*Continued*

## APPOINTMENT OF AN UMPIRE.

We, the undersigned, do hereby select and appoint ..... as Umpire, to decide upon matters of difference only, as provided for in the within agreement.

..... 190 .....
.....
} Appraisers.

## DECLARATION OF APPRAISERS.

State of .....
County of ..... } ss.

We, the undersigned, do solemnly swear that we have no interest as employees, relatives, creditors or otherwise in either of the parties to the foregoing Agreement, and that we will act with strict impartiality in the discharge of our duties as Appraisers, rendering an award to the best of our knowledge, skill and judgment.

WITNESS our signatures hereto.

.....
.....
} Appraisers.

.....Umpire.

Subscribed and sworn to before me this ..... day ..... 190

## AWARD OF APPRAISERS.

We, the undersigned, pursuant to the within appointment, DO HEREBY CERTIFY that we have truly and conscientiously performed the duties assigned us, agreeable to the foregoing stipulations, and have appraised and determined the actual cash value of said property on the ..... day of ..... 190 ..... and the actual damage thereto by the fire on that day, to be as follows, to wit:

| | Value before the Fire. | Damage. |
|---|---|---|
| On ..... | $ | $ |
| On ..... | $ | $ |
| On ..... | $ | $ |
| Total amount of award ..... | | |

.....

as per Schedule herewith.

WITNESS our hands, this ..... day of ..... 190.

.....
.....
} Appraisers.

.....Umpire.

XLVI

# SWORN STATEMENT IN PROOF OF LOSS

TO THE

| POLICY No. _____ AGENCY AT _____ | **Insurance Company** Connecticut | AMOUNT OF POLICY $ _____ DATE OF EXPIRATION _____, 19__ |
|---|---|---|

BY YOUR POLICY OF INSURANCE ABOVE DESCRIBED

YOU INSURED _____
(hereinafter called the Assured), according to the terms and conditions contained therein, the written portion thereof and all endorsements, transfers and assignments thereon, being as follows:

$ _____

(Copies of all endorsements, transfers, assignments and all the descriptions and schedules in all other Policies will be furnished on demand.)

A fire occurred on the _____ day of _____, 19__, which, to the best knowledge and belief of Assured, originated _____

The property thus insured belonged to _____ and no other person or party had any interest therein except _____

The building was occupied for the following purposes: _____

_____ and for no other purpose whatever.

The whole value, the whole amount of loss, and the whole insurance, on above described property, is as follows, viz.:

| | WHOLE VALUE | WHOLE LOSS | WHOLE INSURANCE | AMOUNT NAMED IN THIS POLICY | AMOUNT CLAIMED UNDER THIS POLICY |
|---|---|---|---|---|---|
| .....Item of Policy..... | | | | | |
| .....Item of Policy..... | | | | | |
| ..... .....Item of Policy..... | | | | | |
| .....Item of Policy..... | | | | | |
| Other Items of Policy..... | | | | | |
| TOTALS..... | | | | | |
| *Total Amount Claimed of this Company under above-named Policy.* | | | | | |

The said fire did not originate by any act, design or procurement on the part of assured, or this affiant; nothing has been done by or with the privity or consent of the assured or this affiant, to violate the conditions of the Policy, or render it void; no articles are mentioned herein or in annexed schedules but such as were in the building damaged or destroyed, and belonging to, and in possession of the said assured at time of said fire; no property saved has been in any manner concealed, and no attempt has in any manner been made to deceive this Company as to said loss.

Any other information that may be required will be furnished on call, and considered a part hereof.

**It is expressly understood and agreed, that the furnishing of this blank to the assured or the preparing of Proofs by an adjuster, or any agent of this Company is an act of courtesy and is not a waiver of any rights of this Company.**

Witness _____ hand at _____
this _____ day of _____, 19__

_____
Assured

_____

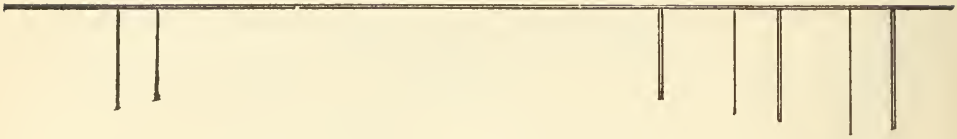
STATE OF _____
COUNTY OF _____ } ss.

Personally appeared before me, the day and date above written _____ signer of the foregoing statement, who made solemn oath to the truth of same, and that no material fact is withheld of which this Company should be advised.

_____ [SEAL]
Notary Public. Justice of the Peace.

XLVI—*Continued*

## SCHEDULE A



## SCHEDULE B

STATEMENT OF INSURANCE AND APPORTIONMENT OF LOSS

| POLICY NO. | NAME OF COMPANY | FIRST ITEM | | SECOND ITEM | | THIRD ITEM | | FOURTH ITEM | | FIFTH ITEM | | TOTAL | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | INSURES | PAYS | INSURES | PAYS | INSURES | PAYS | INSURES | PAYS | INSURES | PAYS | Insurance by each Co. | Loss by each Policy |
| | | | | | | | | | | | | | |

## CERTIFICATE OF MAGISTRATE OR NOTARY PUBLIC

STATE OF.....
COUNTY OF..... } ss.

I,.....of.....

living nearest the property hereinbefore described, hereby certify that I am not interested in the loss or claim above set forth, either as a creditor or otherwise, nor related to the insured or sufferers; that I have examined the circumstances attending the fire, or damage alleged, and that I am well acquainted with the character and circumstances of the insured, and do verily believe that .....ha.....by misfortune, and without fraud or evil practice, sustained loss and damage on the property insured to the amount of.....Dollars.

In Testimony Whereof, I have hereunto set my hand and seal this.....day of....., A. D. 19....

.....

This Certificate is in all cases to be made by the Magistrate or Notary Public living nearest the place of fire.

**SWORN STATEMENT IN PROOF OF LOSS**

.....Agency

Policy No.....

Assured.....

Date of Fire.....

Proofs Received.....

Amount Insured, . . $.....

Amount Paid, . . . . $.....

When Paid.....

ADJUSTED BY

.....

## XLVII

## DAILY REPORT

No. .....

No. of Previous Policy .....

COMMISSION ..... %

# THE INSURANCE COMPANY, NEW YORK

MAP: Sheet No. ..... | Other Insurance in This Company on or in Premises | Insurance in other Companies

Block No. .....

Street No. ..... | Class No. ..... Bp. Bu. Fp. Fu. Su. Sp. | .....

MR. ..... FR. ..... SURVEY NO. .....

Amount, $..... Rate..... Premium, $.....

In Consideration of the Stipulations herein named

and of ..... Premium,

Assured: .....

Term: .....

from ..... day of ..... 19....., at noon,

to ..... day of ..... 19....., at noon,

Against Loss or Damage by FIRE.

Amount ..... Dollars

EXACT COPY OF FORM ON POLICY

SAMPLE

Agents will please answer the following, to facilitate checking rate:

**DWELLINGS**

What kind of roof? .....

Are chimneys brick and built from ground or living room? .....

Do smoke pipes enter chimneys unobstructed from view? .....

Is dwelling occupied by more than three families? .....

Is dwelling exposed by dwellings or private barns only? .....

Is dwelling in a continuous row of more than three, or if frame is there a space of less than three feet between each? .....

Is ground area 2500 square feet or over? .....

**PRIVATE BARNS**

What kind of roof? .....

Chimneys (same information as for dwellings; see above) .....

Is barn exposed by dwellings and private barns only? .....

Is barn in a continuous row of more than three? .....

Does horse capacity exceed four? .....

This Report Mailed ..... 19.....

..... Agent.

## DIAGRAM

Agents will please answer ALL these questions.

**EXPOSURES.**

North, .....

South, .....

East, .....

West, .....

**EXPOSING LINES.**

Pol No. ..... Amount ..... Distance in feet .....

" ..... " ..... " .....

" ..... " ..... " .....

" ..... " ..... " .....

**OCCUPANCY OF THE PREMISES.**

If Policy covers store building, state class of merchandise kept.

Basement, .....

1st Story, .....

2nd Story, .....

3rd Story, .....

4th Story, .....

1 When was building erected? ..... Material? ..... Is it in good repair? .....

2 How Lighted? .....

3. How heated? .....

4. Do all the Stove Pipes discharge into substantial brick Chimneys? .....

5 Have you personally and carefully inspected the Stoves, Furnaces, Pipes, Flues and Chimneys? .....

6. If so, do you consider them safe? .....

7. What is the present Cash Value of Building above foundation? $.....

8 What is the Value of Stock? $.....

9 Is the property mortgaged? ..... For what amount? $.....

10 What is the value of the whole property mortgaged? $.....

11. Do you fully recommend the risk as being free from all financial or moral hazard? .....

12. How long has the assured resided in your place? .....

13. Are the premises now occupied and productive? .....

14. How far to nearest public fire hydrant? .....

15. To nearest fire company? .....

Remarks .....

XLVIII

## MONTHLY REPORT

| NUMBER | AMOUNT INSURED | GROSS PREMIUMS 15% | 20% | 25% | TERM (in years) | EXPIRATION MO. | EXPIRATION YR. | FOR HOME OFFICE USE CLASS |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |
| TOTAL PREMIUMS | | | | | $ | | | {TOTAL GROSS PREMIUMS carried forward (1) |
| TOTAL COMMISSIONS | | | | | | | | {TOTAL GROSS COMMISSIONS carried forward (3) |

| NUMBER | AMOUNT CANCELLED | RETURN PREMIUMS 15% | 20% | 25% | TERM (in years) | COM. MO | COM. YR | EXP. MO | EXP. YR | ORIGINAL PREMIUM | CLASS |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | |
| RETURN PREMIUMS | | | | $ | | | | | | {TOTAL RETURN PREMIUMS entered below (2) | |
| RETURN COMMISSIONS | | | | | | | | | | {TOTAL RETURN COMMISSIONS entered below (4) | |

FOR HOME OFFICE USE

SUMMARY FOR THE MONTH OF _____ 19____

(To be filled out by Company)

Total Gross Writings brought forward _____ $

Total Gross Writings cancelled $_____

Re-Insured $_____ $

Net Writings _____ $

(To be filled out by Agent)

(1) Total Gross Premiums brought forward from other side $_____

(2) Less Return Premiums as above $_____

Re-Insurance $_____ $

Net Premiums _____ $
(If return premiums re-assumed in red ink)

(3) Total Gross Commissions _$

(4) Total Return Commissions_$

Net Commission due Agent____$
(If return commission is to be re-assumed in red ink)

(1) Total GROSS PREMIUMS brought forward from other side _____ $

(2) Total RETURN COMMISSIONS as above____

(2) Total RETURN PREMIUMS as above_____$

(3) Total COMMISSION on Gross Premiums from other side_____

Taxes (vouchers herewith)_____

Total Premiums (if any) to be Collected at Home Office less Commission to brokers

Remittance herewith_____

Balance due Company_____

Balance (if any) due Agent_____

TOTAL_____ $

TOTAL_____ $

## STANDARD ACCOUNT CURRENT

ADOPTED BY
THE NATIONAL BOARD OF
UNDERWRITERS, 1917

APPROVED BY THE
National Association of Insurance Agents, 1917

Month of _____ 19____

THE
INSURANCE COMPANY
NEW YORK

6-20-20m-U 2301

# Agency Agreement.

**For the Territory of the**

AGREEMENT between the.....Insurance Company

and .....
its Agent at

IT IS HEREBY AGREED between the Company and the Agent as follows:

(A) This Agreement applies to the territory under the control of said territory consisting of the

(B) It is agreed, for the purposes of this Agreement, that the Congested District (as hereinafter referred to) is bounded as follows: North side of Street to south side of Street, east side of Street to River.

(C) The Agent agrees to perform faithfully all his duties as Agent of the Company during the life of this Agreement and to further its interests in every legitimate way

(D) Said Company pledges itself to have not more than three Policy Writing Agencies in the City of In consideration of which said Agent pledges.....not to represent any Company that appoints or maintains more than three Policy Writing Agencies in said City of

(E) The Company agrees to pay and the Agent agrees to accept compensation on business written by him for it as follows, commissions at the following rates on the amount of net premiums written by him and shown in his monthly accounts current, viz.:

(1) Twenty per centum (20%) on all risks located within the congested district (See Section B) which, under the rules of the Fire Insurance Exchange, are designated as entitled to a brokerage of ten per centum (10%).

(2) Twenty-five per centum (25%) on all risks which, under the rules of the Exchange, are entitled to a brokerage of fifteen per centum (15%), viz.: outside of congested district on all classes except dwellings and small stores and dwellings and their contents.

(3) Thirty-five per centum (35%) on all risks which, under the rules of the Exchange, are entitled to a brokerage of twenty-five per centum (25%), viz: dwellings and small stores and dwellings and their contents outside the congested district.

(4) Said Agent also agrees that he will observe the brokerage rules of the Association and neither pay nor receive more than 10 per cent. brokerage on the 20 per cent. classes above described, nor more than 15 per cent. on the 25 per cent. class or 25 per cent. on the 35 per cent. class; neither will he rebate to the assured in any form whatsoever. Said Company agrees to support in every possible way the enforcement of said brokerage rules in accordance with its obligations.

(F) The commission on the premiums of policies covering Leases, Rents, Use and Occupancy, and Profits and Commission, to be the commission applicable to the building wherein or whereon or to which such Lease, Rent, Use and Occupancy, and Profits and Commission, insurance applies.

(G) Each and all of the foregoing commissions to include all Agency expenses such as postage, exchange, advertising, solicitors' fees, personal local license fees, clerk hire, rent, services in adjusting losses under policies issued at the Agency and all other Agency charges whatsoever, excepting only maps, map corrections, advertising as required by law and Local Board expenses and taxes.

(H) In addition the Company agrees to pay a contingent commission of five per centum (5%) on the net profits of the business of the Agency for each contingent year ending on the last day of....., the said contingent commission to be computed as follows:

By deducting from the gross premiums written by the Agent for the Company,

(a) cancellations and return premiums,

(b) the commissions described herein (which commissions cover agency expenses as already described herein),

(c) the amount of losses and loss expenses incurred on business in force on the books of the Company at the Agency whether placed there by the present Agent or turned over to him for supervision and attention at expiration, and on all business hereafter written by the Agent for the Company,

(d) all other Agency expenses and charges whatsoever, including Local Board expenses, State and local taxes and licenses, maps, map corrections, and advertising as required by law, and

(e) the premium consideration for reinsurance effected by, or at the request of, the Agent; and

by adding (f) all collection for losses and loss expenses on reinsurance effected by, or at the request of, the Agent.

(I) It is agreed that any contingent commission paid under this agreement shall not be treated as an Agency expense in computing the contingent commission of any subsequent contingent year.

(J) This Agreement does not apply to any business written by the Agent covering risks located outside of the territory described in Article (A) hereof, to which it is expressly stipulated herein that this Agreement applies. All premiums and losses on such risks located outside of such territory are to be excluded in computing contingent commission under this Agreement.

(K) It is agreed that at the expiration of the contingent year, or upon the termination of the Agency, the Company will make up the contingent account and, on request, will remit (all premiums for the contingent period being paid to the Company and not otherwise) the amount found to be due, if anything, or may request the Agent to charge the same in his next monthly account current.

(L) In view of the fact that the Agent is not charged with unearned premium in computing the net results for the contingent year it is agreed that he shall have no compensation, contingent or otherwise, on the business or its profits after the termination of the Agency.

This Agreement abrogates and takes the place of any contract, agreement or understanding, whether verbal or written, of prior date, between the parties mentioned herein, so far as affecting the points covered by this Agreement.

It is agreed that either party to this Agreement may terminate it at any time.

IN WITNESS WHEREOF this Agreement has been signed in triplicate by the parties hereto, this.....

day of.....Nineteen Hundred and.....

.....INSURANCE COMPANY.

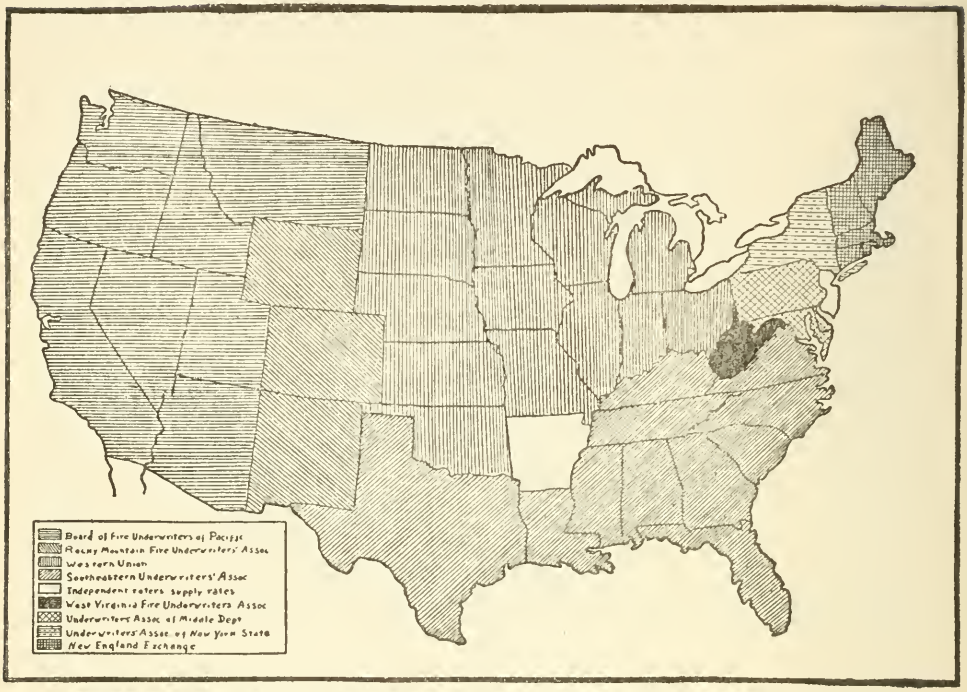
By.....

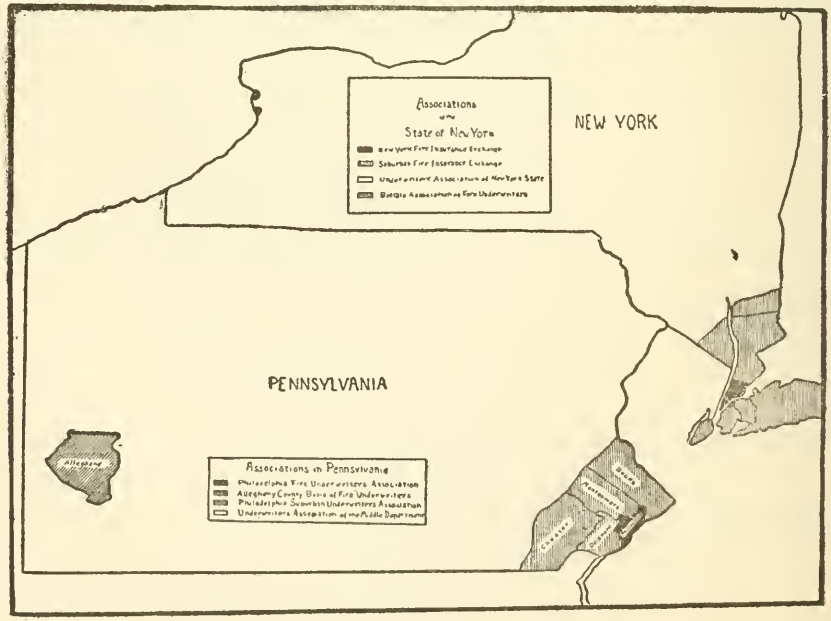
.....
Agents.

NOTE.—"Agent" wherever appearing herein shall be read "Agents" and singular verbs read as plural where the appointees are plural; and likewise "he" shall be read "she" or "they," "him" be read "her" or "them," or "his" be read "hers" or "theirs" as required for agreement with the appointee or appointees.

## L

## MAPS OF FIRE UNDERWRITERS' ASSOCIATIONS



127 Rate of Building Unexpected (Pressure, Pressure) etc. ..... .10 to .25

145 Empty boxes, rubbish, etc., in rear yard, alleys, window recesses, under sidewalk gratings, etc. ..... .10

146 Open lights in show windows or electric bulbs covered with tissue paper or paper

[illegible] Merchandise covered by tarpaulins each night ..... 5%

214 Merchandise in tin covered cases ..... 5%

215 If merchandise on skids or platforms ..... 2%

217 Auxiliary private fire plant, force pump, etc. ..... 5%

Total ..... %

*Exceptional City Fire Department*—219 Extra Steamers, ¼ of 1% for each in excess of five (not exceeding 15% in all). 220 Water-tower, if one, 2½%; if two, 5%. 221 Fire boat, available, 5%. 221a Gravity Pressure; for each effective fire stream available at risk, supplied by a gravity pressure of not less than 40 lbs. at base of nozzle, by hydrant on 8-inch or larger main, deduct ½ of 1% (not exceeding a total of 7½%). If 6-inch main one half deduction.

*These percentages of last net amount, but only one-half the foregoing deductions (except No. 221) in case supply main from reservoir is not in duplicate or unless precautions are taken by city to prevent freezing of hydrants. See note page 50.*

Total ..... %

134 *Result*—Net rate on stock in unexposed building .....

N. B. Minimum Stock Rate—*The stock rate at this point, No. 134, must exceed that of building at No. 129, above by an amount equal to 20% of the second column charge in the table for the stock; if it does not, increase it to such figure.*

134a *Exposure*—If any, add according to hazard .....

134b *Conflagration Hazard* due to congested district .....

134c *Automatic Sprinklers*—See rule page 51 .....

*Deduct for* ..... *% Co-Insurance* (7½ % for 80%) .....

135 *Result*—Net Rate on Stock With ..... % Co-Insurance .....

*Add for Adverse Legislation,* Taxation, Valued Pol. Laws, 136, page 42 .....

" " *Faults of management,* if any, 140 to 154 above .....

*Final Rate on Stock*—(Including Co-ins., charges for faults of management, etc.) .....

Rate — Building [illegible] Frontage [illegible]
Occupied by [illegible]
Add for occupancy amount in [illegible] of [illegible]
[illegible] charge for the most hazardous [illegible]

Result—Rate of Building Occupied

## DEDUCTIONS FOR FIRE APPLIANCES, ETC. ON BUILDINGS

| | | |
|---|---|---|
| 161 | One hydrant supplied by 6 inch water main within [illegible] feet | 5% |
| | Two or more hydrants [illegible] | 10% |
| | If said water [illegible] fed at both ends [illegible] mains | [illegible] |
| | [illegible] | |
| | [illegible] fire dept. | [illegible] |
| | [illegible] central station | [illegible] |
| | [illegible] building [illegible] | [illegible] |
| | [illegible] | [illegible] |
| | [illegible] fire-escapes outside of building, with landings at each floor | [illegible] |
| | [illegible] of water [illegible] pails on each floor [illegible] filled [illegible] square feet of floor area [illegible] hydrants within [illegible] | [illegible] |
| | *One half number may be filled with sand. One cask may be considered the equivalent of three pails* | |
| | Standpipe internal with tank supply | [illegible] |
| | without tank supply | [illegible] |
| 164 | external with harness [illegible] use of fire dept. | 1% |
| 165 | Each side or rear accessible to fire dept. [illegible] deduction for [illegible] | 1% |
| 166 | Fire department house, engine, hose [illegible] and ladder within [illegible] feet [illegible] next door or on opposite side of street | 1% |
| | Basement and sub-cellar [illegible] pipe sprinklers | [illegible] |
| 168 | Automatic sprinklers in basement [illegible] been made for sprinklers throughout building | 5% |
| 169 | Occupancy, exclusively dwelling above grade floor [illegible] family | [illegible] |
| | *[illegible] one floor [illegible]* | |
| | " [illegible] two families | [illegible] |
| 171 | " [illegible] than two families | [illegible] |
| 172 | " if tenement house above grade floor | 1% |
| 173 | " if building occupied [illegible] exclusively for offices or dwelling and offices | [illegible] |
| 174 | " if occupied [illegible] above grade floor [illegible] offices [illegible] dwelling | [illegible] |
| 175 | Watchman but no watch clock | [illegible] |
| 176 | with [illegible] watchman | [illegible] |
| | if automatic alarm No. [illegible] | 10% |
| 177 | Roof hydrants protected from freezing | 2% |
| 178 | Floor beams and girders self releasing | 1% |
| 179 | Auxiliary private fire plant, fire pump [illegible] | [illegible] |
| | Total [illegible] | |

*Exceptional City Fire Department* — [illegible] each one in excess of five [illegible] not exceeding a total of [illegible] Water main [illegible] available [illegible] supplied [illegible] gravity pressure [illegible] hydrant on 6 inch or larger main deduct [illegible] not exceeding a total [illegible] inch main one half deduction.

*These percentages [illegible] one half the foregoing deductions [illegible] supply main [illegible] by the city to prevent freezing of hydrants. See rule [illegible]*

Total

| | |
|---|---|
| 124 | *Result*—Net rate of building occupied [illegible] |
| | *Exposure*—[illegible] hazard |
| | *Conflagration Hazard* due to congested business district |
| | *Result*—Net Rate of Building [illegible] |
| 115a | *Automatic Sprinklers* [illegible] page [illegible] |
| | [illegible] |
| | [illegible] |
| | [illegible] |
| 132 | *Result*—Net Rate of Building [illegible] |

*Add for Adverse Legislation*, Valued Pol. Laws, Taxation [illegible] page [illegible]

## ADD FOR FAULTS OF MANAGEMENT [illegible]

| | | |
|---|---|---|
| 140 | [illegible] pipes through floors or partitions [illegible] with double metal thimbles [illegible] entering flue in attic [illegible] | |
| 140a | Floor beneath stove not protected | |
| 141 | Bottom of [illegible] shaft used [illegible] waste | |
| 142 | Swinging gas brackets or bracket lamps unprotected [illegible] each additional one | |
| 143 | Loose rubbish, ashes, etc. [illegible] packing material not in bins | |
| 144 | Cracked or bulged walls, thin and worn floors [illegible] plastering [illegible] etc. | [illegible] |
| 145 | Empty boxes, rubbish, etc. in rear yard, alleys [illegible] etc. | [illegible] |
| 146 | Open lights in show windows [illegible] electric bulbs [illegible] paper or paper shades | [illegible] |
| 147 | Sawdust on floors, sawdust spittoons, etc. | [illegible] |
| 148 | Kerosene used [illegible] floors | [illegible] |
| 149 | Ash and waste cans not metal | |
| 150 | Furnace top within [illegible] inches of wooden [illegible] shield | [illegible] |
| 151 | Fire places, hearths [illegible] fire boards or summer pieces or unprotected wooden mantels [illegible] holes | [illegible] |
| 152 | Steam pipes in contact with wood [illegible] | |
| | Elevators or other shafts communicating with roof space | [illegible] |
| 154 | Electric lighting or other system with installation [illegible] lights [illegible] globes [illegible] | [illegible] |
| | [illegible] merchandise without proper aisles opposite or [illegible] windows [illegible] | [illegible] |

*Net Rate on Building*— Including [illegible] charges [illegible]

## TO OBTAIN RATE [illegible]

*Building occupied* [illegible] above
[illegible] the building
[illegible] excess of item No. [illegible]
[illegible]
*[illegible] difference [illegible]*
*B. [illegible]*
Add amount [illegible] occupancy table [illegible]
Add [illegible] other than single occupancy buildings [illegible] below grade
*If distributed over two or more floors [illegible] get the average [illegible] basement and second floor [illegible] See rule page [illegible]*
[illegible]—If stock exclusively on grade floor [illegible] deduct [illegible] if stock extends [illegible] basement [illegible] deduct [illegible]
*Warehouses and Storage Stores Bonded* deduct 33⅓%
*Warehouses and Storage Stores [illegible]* deduct 25%
*[illegible] Warehouses*—original unbroken packages [illegible] packages [illegible]

Total

## DEDUCTIONS FOR FIRE APPLIANCES [illegible]

| | | |
|---|---|---|
| | If one hydrant supplied by 6 inch water main within [illegible] | [illegible] |
| | Two or more [illegible] supplied by [illegible] water main [illegible] | [illegible] |
| | Water pipe fed at both ends [illegible] main [illegible] | [illegible] |
| | [illegible] | |
| | [illegible] fire dept. [illegible] central station | |
| | Burglar alarm [illegible] central station | |
| | Special building [illegible] | [illegible] |
| | [illegible] | |
| | [illegible] fire escapes outside of building [illegible] landing [illegible] | |
| | [illegible] of water [illegible] pails [illegible] hydrants within [illegible] | |
| | Standpipe internal with tank supply | |
| | [illegible] | [illegible] |
| | Each side or rear accessible to fire dept. [illegible] | |
| | Fire dept. house, engine, hose [illegible] hook and ladder [illegible] opposite side of street | [illegible] |
| | [illegible] sprinklers and [illegible] throughout building | [illegible] |
| | [illegible] dwelling above [illegible] family | [illegible] |
| | [illegible] | |
| | [illegible] families | [illegible] |
| | [illegible] than two families | [illegible] |
| | if tenement house above grade floor | [illegible] |
| | [illegible] grade floor [illegible] offices | [illegible] |
| | [illegible] and dwelling | |
| | [illegible] | [illegible] |
| | [illegible] | [illegible] |
| | [illegible] | |
| | Roof [illegible] | |
| | [illegible] | |
| | [illegible] | [illegible] |
| | Metal [illegible] protected | |
| | [illegible] sheds or platforms | [illegible] |
| | [illegible] plant [illegible] | |

*Exceptional City Fire Department* [illegible] each [illegible] not exceeding [illegible] Water [illegible] supplied by gravity pressure [illegible] hydrant on 6 inch or larger main deduct [illegible] not exceeding a total [illegible] inch main one half deduction.

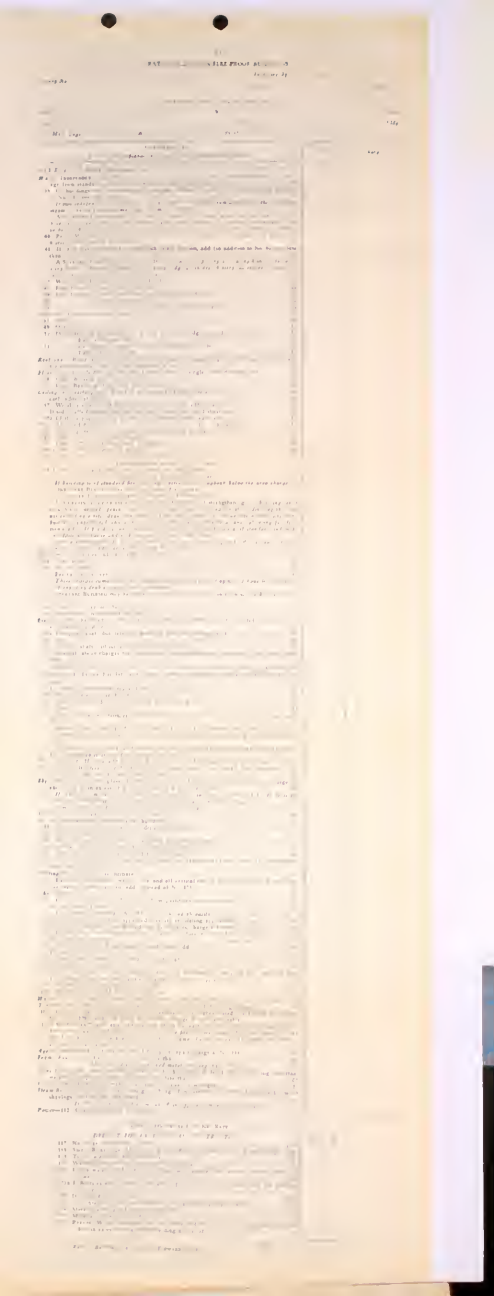
*These percentages [illegible] supply main [illegible] hydrants [illegible] page [illegible]*

Total

| | |
|---|---|
| 130 | *Result*—Net rate on stock in unexposed building |
| | N. B. Minimum Stock Rate [illegible] |
| 136a | *Exposure* [illegible] add according to hazard |
| 136 | *Conflagration Hazard* due to congested district |
| [illegible] | *Automatic Sprinklers*. See rule page [illegible] |

*Deduct for* [illegible] Insurance [illegible]
[illegible] Rate—Net Rate on Stock With [illegible]
*Add for Adverse Legislation*, Taxation, Valued Pol. Laws, [illegible] page [illegible]
Faults of management [illegible] 140 to 154 above

*Final Rate on Stock*— Including [illegible] charges for faults of management, etc.



106a For each MANUFACTURING TENANT in excess of the highest rated one (which is charged for in No. 128), add 10% of its first column charge in occupancy table.....

106b If MANUFACTURING RISK add one-fifth of .01 for each operative employed in excess of 10 (*not exceeding a total of .25 in risks where the first column charge does not exceed .25. In wood working or other hazards where first column charge exceeds .25, double the charge, but total not to exceed* 1.00).

*Age* of Building—107 Over 20 years (if in poor repair charge at No. 144.)..... .02

*Frame Rears*—108 Extensions, etc., not less than..... .10

*If protected with approved metal covering, half charge.*

*Stone Piers*—109 Stone columns, pillars, or brick piers with bond stones, carrying important weights, charge according to number not less than..... .05

*Iron Columns Unprotected*—110 Cast iron .10; steel or wrought..... .15

*Steam Boiler*—111 (other than heating). Charge if in basement .05; above basement .10; wood shavings for fuel 1.00 additional.....

*If boiler in fire-proof room cut off in approved manner, no charge.*

*Power*—112 Charge according to hazard.....

TOTAL DEFICIENCIES PLUS KEY-RATE.....

## *DEDUCT FOR EXCEPTIONAL CONSTRUCTION*

| | | *No.* | *%* |
|---|---|---|---|
| 117 | No cellar or basement, deduct.....10% | | |
| 118 | SMALL RISKS under 1500 sq. ft. ground floor area and not over 3 stories high..10% | | |
| 119 | Tin or sheet-iron between floors..... 5% | | |
| 120 | Water-proof paper or cement between floors..... 2% | | |
| 121 | Floors water-proof and also inclined with scuppers to carry off surplus water to sewer ..... 5% | | |
| 121a | If floors exceed 3 inches in thickness, deduct 1% for each excess inch (in addition to 119, 120 and 121)..... | | |
| 122 | If grade floor fire-proof.....10% | | |
| 123 | Each fire-proof floor above grade (not exceeding a total of 40%)..... 5% | | |
| 124 | Metallic studs and lathing throughout.....10% | | |
| 125 | Metallic lathing on wooden studs..... 5% | | |
| 126 | PARAPET WALLS exceeding one foot above roof on all exposed sides, deduct for each foot in excess of one (not exceeding a total of 3%)..... 1% | | |
| | TOTAL.....% | | |

127 *Rate of Building Unoccupied.* FORWARD (OVER).....

LII

## BASIC TABLE, DEAN SCHEDULE

100—Protection

| *Height* | *Class 1* | *Class 2* | *Class 3* | *Class 4* | *Class 4½* | *Class 5* | *Class 6* |
|---|---|---|---|---|---|---|---|
| 1 story | $0.54 | $0.61 | $0.69 | $0.78 | $0.86 | $0.94 | $1.00 |
| 2 stories | .57 | .64 | .73 | .82 | .91 | .99 | 1.05 |
| 3 stories | .60 | .67 | .76 | .86 | .95 | 1.04 | 1.10 |
| 4 stories | .63 | .72 | .81 | .92 | 1.01 | 1.10 | 1.17 |
| 5 stories | .69 | .78 | .88 | .... | .... | .... | .... |
| 6 stories | .76 | .... | .... | .... | .... | .... | .... |
| Increase for each additional story | .12 | .12 | .12 | .12 | .12 | .12 | .12 |
| Decrease if no basement | .03 | .03 | .04 | .04 | .04 | .05 | .05 |

LIII

## CONTENTS TABLE, DEAN SCHEDULE

Third-Class Protection

| *Location of Contents* | *D1* | *D1½* | *D2* | *D2½* | *D3* | *D3½* | *D4* |
|---|---|---|---|---|---|---|---|
| Basement | $0.26 | $0.33 | $0.40 | $0.49 | $0.57 | $0.66 | $0.75 |
| Ground floor | .18 | .25 | .31 | .39 | .47 | .56 | .64 |
| Second floor | .26 | .33 | .40 | .49 | .57 | .66 | .75 |
| Third floor | .31 | .39 | .46 | .55 | .64 | .74 | .83 |
| Fourth floor | .36 | .44 | .52 | .61 | .70 | .80 | .90 |
| Fifth floor and over | .41 | .49 | .57 | .67 | .77 | .88 | .98 |

LIV

## OCCUPANCY TABLE, DEAN SCHEDULE

| | *1* | *2* | *3* |
|---|---|---|---|
| 195. Bolt, Nut and Screw Stocks | 5% | 10% | D2 |
| 196. Bonnet and Hat Frame Factories | 15% | 20% | D3 |
| 1. Additional labor, power, heat, etc. (C. 3¼) | | | |
| 197. Book Bindery (no printing) | 25% | 40% | D3 |
| 1. Additional labor, power heat, etc. (C. 3½) | | | |
| 2. Book Bindery with Printing. See Printing. | | | |
| 198. Book Binders' Supplies | 5% | 10% | D2 |
| 199. Book and Stationery Stocks | 5% | 10% | D3 |
| 200. Bootblacking Parlors | 3% | .... | D2 |
| 201. Boot and Shoe Stocks (retail) | 5% | 10% | D2 |
| 202. Boots and Shoes (wholesale), including Rubber Goods | 3% | 5% | D1½ |

LV

## CALCULATION OF A BUILDING RATE—DEAN SCHEDULE

BRICK BUILDING

*60 Table—Third Class Protection*

| | | |
|---|---|---|
| Basis—four stories, no basement ($0.49-.02) | | $0.47 |
| Area—4,000 square feet, four floors 14% less one-tenth or 1% for interior wall | 13% | |
| Walls—sides are 16-12-12-12 average 13 in., should be 20-16-16-12, average 16 in. deficient each 3 in., at 3%.....½ | 6% | |
| One wall party, add | 4% | |
| Parapets—one deficient in height | 4% | |
| Iron and Glass store front first story, over 25 feet | 6% | |
| Ceilings and walls wood sheathed—2 floors | 6% | |
| Skylight—one 70 square feet, not standard | 4% | |
| Floorways grade "B" with two "below a" openings each floor (6% x 3) | 18% | |
| Partitions—one wooden lath and plaster, basement and first floors, between tenants | 6% | |
| Exterior Attachments—one metal-clad frame roof house over elevator | 5% | |
| Occupancy (assumed) | 48% | |
| Total charges added and extended | 120% | .56 |
| Occupied building rate | | $1.03 |

LVI

## CALCULATION OF A BUILDING AND CONTENTS RATE—DEAN SCHEDULE

MUNICIPAL PROTECTION—CLASS 3

| | | | | | | |
|---|---|---|---|---|---|---|
| Building: 4 stories and basement, basis | | | | | | $0.49 |
| *Charges* | | | | | | |
| Area: 50 x 100 feet equals 5,000 feet, 5 floors | | | | | 20% | |
| Walls: (2) each deficient 3 inches | | | | | 6% | |
| One party wall not standard | | | | | 4% | |
| Parapets: one deficient in height | | | | | 4% | |
| Front wall on first story all of iron and glass | | | | | 6% | |
| Wooden sheathed ceiling and walls on first floor | | | | | 3% | |
| Skylight: one 70 sq. ft. not standard; heavy glass in wooden frame | | | | | 4% | |
| Floor Openings: one open elevator and one open stairway each floor | | | | | | |
| Floors grade | B | B | B | B | | |
| Retinue grades | —a | —a | —a | —a | | |
| Number of openings | 2 | 2 | 2 | 2 | | |
| Charges | +6% | +6% | +6% | +6%= | 24% | |
| Metal-clad roof house over elevator | | | | | 5% | |
| Occupancy charge (see detail) | | | | | 272% | |
| Total percentage charges added, applied to basis rate and extended | | | | | 348% | 1.71 |
| Occupied building rate | | | | | | $2.20 |

LVI—*Continued*

| | | |
|---|---|---|
| Deduct for standard fire escape | 2% | |
| Deduct for approved equipment of fire extinguishers | 5% | |
| Total credits | 7% | .15 |
| Building rate | | $2.05 |
| Exposures—none | | .... |
| Final building rate | | 2.05 |
| Contents rate | | 2.64 |

Contents grade D3 on bst, 1st, 2d, 3d and 5th floors.
Add the differentials as follows 57 + 47 + 57 + 64 + 70 = 2.95.
Divide by number of floors, four and basement (5) = 59 cents.
Building rate $2.05 plus contents differential .59 = $2.64.

DETAIL OF OCCUPANCY

| | *1* | *2* | *3* |
|---|---|---|---|
| John Buck & Co., Candy Factory | 25% | 40% | D3 |
| Average number hands, 125. | | | |
| Additional labor, 120 hands, C3½ | 63% | | |
| Boiler and engine—high pressure boiler with brick stack; concrete floor—in separate room with brick walls and joisted ceiling not cut-off. Boiler grades as "medium" furnace, for which charge in open is 70%; 70% x 80% for location equals | 56% | | |
| Coke-heated candy furnaces (4). | | | |
| Charge for one furnace as "low" 25%; 25% x ⅕ as additional to boiler furnace = 5% and multiply by four for number of furnaces, equals | 20% | | |
| Kettles connected with candy furnaces (4) charge for one 30% increased ⅗ for additional kettles equals | 48% | | |
| Gas engine, in open | 20% | | |
| Total first column charges | 232% | | |
| Add charge in column 2 | 40% | | |
| Total occupancy charge | 272% | | |

LVII

RIOT AND CIVIL COMMOTION POLICY

No. R

Insurance Company of

Amount, $ Rate Premium, $

In Consideration of the Stipulations herein named and of Dollars Premium,

Does Insure

for the term of

from the day of 19 , at noon,
to the day of 19 , at noon,

AGAINST ALL DIRECT LOSS OR DAMAGE CAUSED BY ANY OF THE FOLLOWING:

(1) Riot; (2) Insurrection; (3) Civil Commotion including Strike; (4) Explosion directly caused by any of the foregoing; (5) Explosion occurring from causes other than above described (excluding fire resulting from such explosion) whether originating on the premises of the assured or elsewhere.

Except as hereinafter provided, to an amount not exceeding

Dollars

to the following described property while located and contained as described herein, and not elsewhere, to wit:

SPECIMEN COPY

This policy is made and accepted subject to the foregoing stipulations and conditions, together with such other provisions, agreements or conditions as may be indorsed hereon or added hereto, and no officer, agent, or other representative of this Company shall have power to waive or be deemed or held to have waived such provisions or conditions unless such waiver, if any, shall be written upon or attached hereto, nor shall any privilege or permission affecting the insurance under this policy exist or be claimed by the insured unless so written or attached.

Provisions required by law to be stated in this policy.—This policy is in a stock corporation.

In Witness Whereof, this Company has executed and attested these presents; but this policy shall not be valid until countersigned by the duly authorized manager or agent of the Company at

SPECIMEN COPY SPECIMEN COPY

*Secretary* *President*

*Countersigned at* , *this* *day of* , *19* .

Agent.

## LVII—*Continued*

This entire policy shall be void unless the premium above stated shall be received by this Company or by a duly authorised agent of this Company within thirty (30) days of the beginning of the term hereof.

Damage caused by explosion originating within steam boilers, pipes, fly wheels, engines and machinery connected therewith and operated thereby, is excluded from the cover of this policy, and unless otherwise provided by agreement in writing added hereto, this Company shall not be liable for loss or damage occurring from any explosion originating from any materials or processes incident to the business of the assured, or of the tenants occupying the buildings or premises described herein.

No claim to attach hereto for delay, deterioration, loss of market or any consequential loss, or for confiscation or authorized destruction by duly constituted governmental or civil authorities of the country in which the property is situate; nor for loss and or dimage to glass which may be a part of any building insured hereunder, to an amount in excess of ten (10) per cent. of the value of such building, but in no event shall this Company be liable for a greater proportion of such loss or damage than the amount which this policy bears to the total amount of all similar insurance whether or not such other insurance shall include liability for loss or damage to glass.

This Company shall not be liable beyond the actual cash value of the property at the time any loss or damage occurs, and the loss or damage shall be ascertained or estimated according to such actual cash value, with proper deduction for depreciation however caused, and shall in no event exceed what it would then cost the insured to repair or replace the same with material of like kind and quality; said ascertainment or estimate shall be made by the insured and this Company, or, if they differ, then by appraisers, as hereinafter provided; and, the amount of loss or damage having been thus determined, the sum for which this Company is liable pursuant to this policy shall be payable sixty days after due notice, ascertainment, estimate, and satisfactory proof of the loss have been received by this Company in accordance with the terms of this policy It shall be optional, however, with this Company to take all, or any part of the articles at such ascertained or appraised value, and also to repair, rebuild, or replace the property lost or damaged with other of like kind and quality within a reasonable time on giving notice, within thirty days after the receipt of the proof herein required, of its intention so to do; but there can be no abandonment to this Company of the property described

This entire policy shall be void if the insured has concealed or misrepresented, in writing or otherwise, any material fact or circumstance concerning this insurance or the subject thereof; or if the interest of the insured in the property be not truly stated herein; or in case of any fraud or false swearing by the insured touching any matter relating to this insurance or the subject thereof, whether before or after a loss.

This Company shall not be liable for loss to accounts, bills, currency, deeds, evidences of debt, money, notes or securities; nor by theft; nor unless liability be specifically assumed hereon for loss by interruption of business, manufacturing processes, or otherwise.

This Company shall not be liable for loss or damage covered under any fire or other kind of insurance contract; nor for loss or damage caused by military or naval forces of foreign enemies, any conditions of this policy to the contrary notwithstanding.

This policy shall not be subject to cancellation by the insured or by this Company for a period of ninety days beginning with the date of this policy, but thereafter this policy shall be cancelled at any time at the request of the insured, in which case the Company shall upon demand and surrender of this policy, refund the excess of paid premium above the customary short rates for the expired time, meaning the customary short rate of fire insurance practice or this policy may be cancelled by the Company by giving to the insured a five days' written notice of cancellation with or without tender of the excess of paid premium above the pro rata premium for the expired time, which excess if not tendered, shall be refunded on demand and surrender of this policy. Notice of cancellation shall state that said excess premium (if not tendered) will be refunded on demand.

If loss occur the insured shall give immediate notice in writing to this Company, protect the property from further damage, forthwith separate the damaged and undamaged personal property, put it in the best possible order, make a complete inventory of the same, stating the quantity and cost of each article and the amount claimed thereon; and within sixty days after the loss, unless such time is extended in writing by this Company, shall render a statement to this Company, signed and sworn to by said insured, stating the knowledge and belief of the insured as to time and origin of the loss; the interest of the insured and of all others in the property; the cash value of each item thereof and the amount of loss thereon; all incumbrances thereon; all other insurance, whether valid or not, covering any of said property; and a copy of all the descriptions and schedules in all policies; any changes in the title, use, occupation, location, possession, or exposure of said property since the issuing of this policy; by whom and for what purpose any building or other property herein described and the several parts thereof were occupied at the time of loss; and shall furnish, if required, verified plans and specifications of any building, fixtures, or machinery or other property destroyed or damaged.

The insured, as often as required, shall exhibit to any person designated by this Company all that remains of any property herein described, and submit to examinations under oath by any person named by this Company, and subscribe the same; and as often as required, shall produce for examination all books of account, bills, invoices, and other vouchers, or certified copies thereof if originals be lost, at such reasonable place as may be designated by this Company or its representative, and shall permit extracts and copies thereof to be made.

In case the insured and this Company shall fail to agree as to the amount of loss or damage, each shall, on the written demand of either, before recovery can be had hereunder, select a competent and disinterested appraiser. The appraisers shall first select a competent and disinterested umpire; and failing for fifteen days to agree upon such umpire then, on request of the insured or this Company, such umpire shall be selected by a judge of a court of record in the state in which the property insured is located. The appraisers shall then appraise the loss or damage stating separately sound value and loss or damage to each item; and failing to agree, shall submit their differences only, to the umpire. An award in writing, so itemized, of any two when filed with this Company shall determine the amount of sound value and loss or damage. Each appraiser shall be paid by the party selecting him and the expenses of appraisal and umpire shall be paid by the parties equally.

This Company shall not be held to have waived any provision or condition of this policy or any forfeiture thereof by any requirement, act, or proceeding on its part relating to the appraisal or to any examination herein provided for; and the loss shall not become payable until sixty days after the notice, ascertainment, estimate, and satisfactory proof of the loss herein required have been received by this Company, including an award by appraisers when appraisal has been required.

This Company shall not be liable under this policy for a greater proportion of any loss on the described property, than the amount hereby insured shall bear to the whole insurance, whether valid or not, or by solvent or insolvent insurers, covering such property.

This Company may require from the assured an assignment of all right of recovery against any party for loss or damage to the extent that payment therefor is made by this Company.

No suit or action on this policy, for the recovery of any claim, shall be sustainable in any court of law or equity unless all the requirements of this policy shall have been complied with, nor unless commenced within twelve months next after the loss; provided that where such limitation is prohibited by the laws of the State wherein this policy is issued, then and in that event no suit or action under this policy shall be sustainable unless commenced within the shortest limitation permitted under the laws of such State.

This policy is made and accepted subject to the foregoing stipulations and conditions, together with such other provisions, agreements or conditions as may be endorsed hereon or added hereto, and no officer, agent or other representative of this Company shall have power to waive or be deemed or held to have waived such provisions or conditions unless such waiver, if any, shall be written upon or attached hereto, nor shall any privilege or permission affecting the insurance under this policy exist or be claimed by the insured unless so written or attached.

## LVIII

## APPLICATION FOR MEMBERSHIP IN A RECIPROCAL

# Indemnity Exchange

The undersigned, hereinafter called subscriber, being the owner of the Automobile hereinafter described and not used for commercial purposes, hereby applies for indemnity through the INDEMNITY EXCHANGE for one year from the date of the policy issued hereunder, upon the said automobile and the body, machinery and equipment thereof, while attached thereto, and warrants the following statements to be true:

1. Name of Subscriber, .....

2. Residence, No. ..... Street ..... City or Town ..... County ..... State

3. Business Address, ..... Street ..... City or Town ..... County ..... State

4. Business, ..... (Give Name of Firm and Position in Same) ..... Purchased New? .....

5. Location of Garage, ..... Public or Private? ..... Number of Chauffeurs, .....

6. Car Owned Solely by Subscriber? ..... Purchased, ....., 19.....

7. Cost to Owner of Automobile Described Herein, $ .....

8. Accident Record to Date, .....

9.

| Trade Name of Automobile | No. of Engine | No. of Car | Type of Car | No. of Cylinders | Horse Power | Model Letter | Year's Model | Motive Power |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |
| | | | | | | | | |

Character of Insurance applied for: (Indicate insurance desired by crossing out "Yes" or "No.")

Fire and Theft.....YES—NO Amount $..... Premium $.....

Collision.....YES—NO Premium $.....

Property Damage....YES—NO Premium $.....

Personal Liability....YES—NO Premium $.....

Total Premium $.....

**And For and in Consideration of the** benefits to be derived therefrom and the covenants herein contained, the undersigned Subscriber hereby covenants and agrees with the other Subscribers applying for membership in the INDEMNITY EXCHANGE and their, and each of their, Attorney-in-Fact, the COMPANY, a corporation under the laws of the State of Pennsylvania, as follows:

*First:* The Subscriber agrees to pay the premium as herein provided and to exchange with other Subscribers reciprocal or inter-insurance contracts providing automobile indemnity among themselves for any loss insured against, as provided by Acts of Assembly, and set forth in said contracts of insurance.

*Second:* The Subscriber hereby designates, constitutes and appoints the said Company, hereinafter called "Attorney," to be Attorney-in-Fact for Subscriber and in Subscriber's name, place and stead, to do all things which he/she/they, Subscriber or Subscribers, might or could do with reference to this contract, or any renewal or transfer thereof, and especially to exchange contracts of indemnity with Subscribers of the INDEMNITY EXCHANGE; and in the Subscriber's name to make, issue, modify or cancel contracts therefor containing such terms, warranties and agreements as Attorney-in-Fact shall deem best; to procure reinsurance; to collect, receive and receipt for all money due from or to be credited to the Subscriber's account by reason of this contract, to give, waive or receive all notices or proofs of loss; to adjust and settle all losses and claims under Subscriber's Indemnity Contracts; to appear for, compromise, prosecute, defend or adjust any claims, suits or proceedings on Subscriber's Indemnity Contracts, to do any act with reference to Subscriber's liability under Inter-insurance Indemnity Contracts, which Subscriber could do, with power of substitution. The power of attorney hereby given is strictly limited to the uses and purposes herein expressed and to the provisions, agreements and conditions contained in the Contract of Indemnity issued hereunder and any renewals or transfers thereof. The Subscriber and Subscribers further agree to execute and deliver to the Attorney-in-Fact all papers necessary to carry out the purpose and provisions hereof.

*Third:* Subscriber agrees that Twenty-five per centum (25%) of the premium provided for in the Indemnity Contract or renewal contracts given hereunder shall be retained by and paid to the COMPANY as compensation for and in consideration of its becoming Attorney-in-Fact for Subscriber as aforesaid. The remaining Seventy-five per centum (75%) shall be applied to the payment of losses or repaid to Subscriber as provided in said contracts.

This agreement can be signed upon any number of counterparts with the same effect as if the signatures of all Subscribers were upon one and the same instrument, and wherever the word Subscriber is used the same shall mean Subscriber or Subscribers to this or any duplicate agreement, and shall be and is binding upon the parties hereto, their Executors, Administrators, Successors and Assigns severally and ratably as provided in said Contract of Indemnity.

**In Witness Whereof,** the Subscriber hereunto sets his hand and seal, this .....day of ..... A. D., 191

Accepted, Philadelphia, ..... 191 ..... L.S.

INDEMNITY COMPANY,
*Attorney-in-Fact.*

By ..... Attest .....

LIX

No.....

POLICY OF RECIPROCAL

# Indemnity Exchange

## COMBINATION AUTOMOBILE INDEMNITY CONTRACT

**Section I. Insurers.** THE SUBSCRIBERS to the EXCHANGE, severally, but not jointly, each ratably with other subscribers, but not one for the other, and represented by the Company, Attorney-in-Fact,

**Consideration.** IN CONSIDERATION (1) of the payment in advance of the premium deposit herein provided, (2) the statements made in the application for this Indemnity Contract, a copy of which is attached hereto and made a part hereof, and (3) the execution of a power of attorney to the Company, authorizing it to execute reciprocal or inter-insurance contracts between the holder of this Indemnity Contract and other subscribers to said Exchange,

**Section II. Agreement.**

### AGREE TO INDEMNIFY

.....

the Insured, subject to the provisions and conditions set forth herein,

**Section III.** AGAINST actual loss or damage to the automobile described in the application for this Indemnity Contract, including its operating equipment while attached thereto, to an amount not exceeding the amount specified in this Indemnity Contract, if caused within the period covered by this Indemnity Contract:

**Fire.** 1. BY FIRE arising from any cause whatsoever, including self-ignition, or actual loss or damage caused by lightning or by the burning, derailment, collision, stranding or sinking of the conveyance of any common carrier in or upon which the said automobile is being transported, including general average and salvage charges for which the Insured is legally liable;

**Theft.** 2. BY ROBBERY, Theft or Pilferage in excess of $25.00 on any single occasion, by persons other than those in the employment, service or household of the Insured;

**Collision.** 3. BY COLLISION with any other object, moving or stationary, excluding loss or damage caused by striking any portion of the roadbed or by striking the rails or ties of any street, steam or electric railroad. Loss or damage to tires shall not be covered unless the total loss or damage resulting from one collision shall exceed $200.00.

Provided that the automobile insured hereby is valued at the sum insured and that the liability assumed for loss by fire or theft shall not exceed the amount specified in the application for this Indemnity Contract, and that liability for loss by collision shall not exceed the limit stated in Condition "B."

Provided also that each claim shall be adjusted separately, and that from the amount of each loss claimed because of theft and/or collision, when determined, the sum of $25.00 shall be deducted, and payment made in excess of that amount only.

**Section IV. Property Damage.** AGAINST loss and/or expense arising or resulting from claims upon the Insured for damages on account of damage to, or destruction of, property of every description (except property of the Insured or in charge of the Insured or any of his/her employees or carried in or upon the automobile covered hereby) caused by an accident due to the ownership, maintenance and/or use of the automobile described in the application for this Indemnity Contract, and occurring within the period covered hereby.

Provided that no liability under this clause is assumed in excess of $1,000.00 gross loss or damage.

**Section V. Personal Liability.** AGAINST loss and/or expense arising or resulting from claims upon the Insured for Damages on account of bodily injuries and/or death accidentally suffered, or alleged to have been suffered, by any person or persons, other than employees of the Insured, by reason of the ownership, maintenance and/or use of the automobile described in the application for this Indemnity Contract and occurring within the period covered by said Indemnity Contract.

Provided that liability for loss on account of an accident resulting in bodily injuries and/or death to one person is limited to $5,000.00; and subject to the same limit for each person, the total liability for loss on account of any one accident resulting in bodily injuries and/or death to more than one person is limited to $10,000.00.

Provided also that no liability is assumed under this Indemnity Contract for any claims arising by reason of any obligation assumed by or imposed upon the Insured under any Statute to pay Compensation or damage irrespective of negligence on the part of the Insured, as employer or otherwise, unless this Indemnity Contract is extended by endorsement covering such obligation.

LIX—*Continued*

**THIS INSURANCE IS SUBJECT TO THE FOLLOWING CONDITIONS:**

**Insured's Liability.** A. The liability of the Insured as a subscriber to the Indemnity Exchange under each contract of indemnity, made through Attorney-in-Fact, shall be the same as if a separate contract were issued therefor, and shall be for a sum which is the same proportion of the aggregate liability thereunder, as the Subscriber's premium deposit bears to the net aggregate premium deposits of the Exchange under all contracts in force at the time such liability arises; provided that the aggregate liability of each subscriber created by this contract shall not exceed five times the amount of the premium deposit herein provided to be paid. In consideration of this limitation of liability, the Subscriber agrees to at all times maintain the insurance reserve, required by law to be maintained out of the premium deposit herein provided for, and whenever losses, whether liquidated or contingent, chargeable against the Subscriber's account, shall in the judgment of Attorney-in-Fact require an additional contribution, in order to prevent encroachment upon that portion of Subscriber's premium deposit set aside for insurance reserve, Subscriber shall, upon notice and demand from the Attorney-in-Fact, forthwith pay the Attorney-in-Fact such additional sum or sums as may be specified, not exceeding in the aggregate the total liability of the Subscriber as hereinabove limited. Such additional payments shall be credited to the Subscriber's account, and applied or returned to the Subscriber in the same manner as the original net premium deposit.

**Loss Actual.** B. Liability for damages resulting from collision, or/and from property damage is limited to the actual intrinsic value of the property damaged or destroyed, at the time of its damage or its destruction; or the cost of its repair or replacement:

**Extra Hazard.** C. No liability is assumed on account of accidents occurring while the insured automobile is being operated:

1.—In any race or speed contest,
2.—Or for any unusual or extra hazardous purpose,
3.—Or by any person in violation of law as to age, or without a proper license,
4.—Or in any event by a person under the age of 16 years,
5.—Or for rental, hire or livery or the transportation of passengers for hire,
6.—Or used for the carrying of explosives not used in connection with its operation.

This contract shall forthwith cease and determine if said automobile is used for any of the above purposes.

**Unusual Circumstances.** No liability is assumed for losses caused by invasion, insurrection, riot, civil war, military or usurped power, or by order of any civil authority; or by neglect of the Insured to use all reasonable means to save or preserve the property insured from loss.

**This Contract Personal.** D. The right to indemnity hereunder is personal to the Insured, and no liability is assumed for any liability of others, assumed by the Insured, under any contract or agreement, oral or written.

**Misrepresentation or Assignment.** E. The Insured warrants the statements upon the attached copy of his application to be true, and this contract shall be void if the Insured or his agent conceals or misrepresents, in writing or otherwise, any fact or circumstance in connection herewith, or makes any attempt to defraud the Exchange before or after loss or if the interest of the Insured in the property be other than unconditional and sole ownership, or if the property insured be or become encumbered by any lien or mortgage, or if any change other than by death of the Insured takes place in the interest, title or possession of the Insured by voluntary act or otherwise; provided that in the case of the death of the Insured this contract shall continue in force for the benefit of the legal representatives of the Insured until noon, Standard time, on the 15th day of the following calendar month, unless the original period of the Indemnity Contract terminates or said Indemnity Contract be cancelled prior thereto.

**Territorial Limits.** F. This Indemnity Contract does not cover any loss or expense arising or resulting from accident occurring while the automobile insured hereunder is being maintained or used beyond the limits of the United States of America (exclusive of Alaska, the Hawaiian Islands and Porto Rico) and Canada.

**Concurrent Insurance.** G. If the Insured carry a Policy of another insurer against any loss and/or expense covered by this Indemnity Contract the Insured shall not recover from subscribers to Indemnity Exchange, a larger proportion of the entire loss and/or expense than the amount hereby insured bears to the total amount of valid and collectible insurance applicable thereto.

**Accidents. Losses and Claims occurring must be reported.** H. The Insured upon the occurrence of fire, theft or accident giving rise to any claim hereunder shall send immediate written notice thereof with the fullest information obtainable at the time, to the office of the Company, Attorney-in-Fact, at Pennsylvania, and if a claim is to be made under this Indemnity Contract, by reason of damage and/or loss or for personal liability arising from such fire, theft or accident, a detailed statement shall be forthwith made and returned upon blanks supplied by the Indemnity Company, Attorney-in-Fact. Such statement shall show proper inventory of the parts or equipment destroyed or damaged and state to the best of knowledge and belief the cost of replacement or repair of the same. The Insured shall at all times render to the Exchange and its Attorney-in-Fact all coöperation and assistance in his power, and the failure to furnish to the Company, Attorney-in-Fact, such information, receipts, vouchers and sworn statements when and as the same may be required in connection with any claim under this Indemnity Contract, shall void such claim and terminate this Indemnity Contract.

**Adjustment of Loss.** I. In the event of any loss or damage covered by this Indemnity Contract to the insured automobile or its operating equipment, the loss shall be determined by the Insured and the Attorney-in-Fact, if possible, otherwise by two appraisers, one to be chosen by the Insured and one by the Attorney-in-Fact. The two appraisers so chosen, if they are not able to agree, shall select a third and the award in writing of any two shall determine:

1.—The nature and extent of such damage;
2.—The time required to effect repair or replacement;
3.—The amount of the loss.

## LIX—*Continued*

The Insured shall pay the appraiser selected by him and the Indemnity Exchange shall pay the appraiser selected by its Attorney-in-Fact, and the Insured and the Exchange shall bear equally all other expenses of the appraisal.

**Repair or Replacement.**

J. The Indemnity Exchange shall have the right at the option of Attorney-in-Fact, and by such means as Attorney-in-Fact elects, to repair, rebuild or replace the property damaged, destroyed or lost with other of like kind and quality within reasonable time, or to pay the amount determined as above in money, and retain all salvage.

**Inspection. Cost of Salvage.**

Reasonable time shall be allowed to the Attorney-in-Fact for inspection, before repairs are undertaken or physical evidence of damage removed, but any act by whomsoever done for the manifest protection or salvage of the automobile or property damaged shall be without prejudice and considered as done for the benefit of all concerned and all reasonable expenses so incurred shall be a claim under this Indemnity Contract.

**Insurance during repairs.**

K. In the event of loss or damage to the automobile, whether such loss or damage is covered by this Indemnity Contract or not, liability hereunder shall be proportionately reduced until repairs have been completed and shall then attach for the full amount originally written without additional cost to the Insured.

**Suits against the Insured.**

L. If suit be brought against the Insured to enforce a claim for damages covered by this Indemnity Contract, the Insured shall immediately forward to the Exchange or its Attorney-in-Fact every summons or other process as soon as the same shall have been served on the Insured. The Exchange through its Attorney-in-Fact shall, in the name and on behalf of the Insured, defend such suits. The expense of such defense shall be treated as a loss under this Indemnity Contract.

**Assistance by the Insured.**

The Insured, whenever requested by the Exchange or its Attorney-in-Fact, shall aid in effecting settlements, securing information and evidence, the attendance of witnesses and in prosecuting appeals, but the Insured shall not voluntarily assume any liability or interfere in any negotiation for settlement, or in any legal proceedings, or incur any expense, or settle any claim, except at his/her or its own cost, without the written consent of the Company, Attorney-in-Fact, previously given, except that, as respects liability for personal injuries covered hereunder, the Insured may provide, at the expense of Subscribers to Indemnity Exchange, such immediate surgical relief as is imperative at the time of the accident.

**Subrogation.**

M. In case of payment of loss and/or expense under this Indemnity Contract, the Subscribers to Indemnity Exchange shall be subrogated, to the amount of such payment, to the Insured's rights of recovery against others for such loss and/or expense, and the Insured shall execute all papers required and shall coöperate with Attorney-in-Fact, to secure such rights.

**Payment of Claims.**

N. Claims for loss or damage shall not become payable until thirty days after the notice, ascertainment, estimate and satisfactory proof of loss have been received by the Company, Attorney-in-Fact, including the award by the appraisers, when appraisal is required.

**Right of Recovery. Time Limit.**

No action shall lie against any Subscriber to recover any loss or expense covered by this Indemnity Contract arising or resulting from claims upon the Insured for damages, unless such action shall be brought by the Insured for loss and/or expense actually sustained and paid in money by the Insured after actual trial of the issue, or unless such action is brought within sixty days after the payment of such loss or expense; or for any other loss or damage covered by this Indemnity Contract unless action is brought within one year after the occurrence causing the loss or damage.

**Avoiding Multiplicity of Suits.**

To avoid multiplicity of suits, the Insured agrees that all actions or suits at law or in equity by or on his/her behalf by reason of any claim hereunder, shall be against the Company, Attorney-in-Fact for the Subscribers to the Indemnity Exchange; and that not more than one suit shall be maintained at one time. Each of the Subscribers agrees that the final decision in any such suit shall be accepted as decisive of a similar claim, so far as the same may subsist, against each of the other Subscribers liable therefor, absolutely fixing his liability in the premises; and in consideration of the issuance of this contract of indemnity, each of the Subscribers agrees to abide by such final decision in the same manner and to the same effect as if he had been sole defendant in a similar suit or proceeding as to a similar claim against him, so far as the same may subsist, and the Company, Attorney-in-Fact, is hereby authorized to

**Acceptance of process.**

receive and admit service of process on behalf of any Subscriber, in any suit, or other proceeding, begun or maintained as aforesaid.

**No Assignment.**

O. No assignment of interest under this Indemnity Contract shall be valid, and no officer, agent or other representative of the Indemnity Exchange or of Company, Attorney-in-Fact, shall have power to waive or alter any provision or condition of this Indemnity Contract, except such as by the terms of this Indemnity Contract, may be the subject of agreement endorsed hereon or added hereto: nor shall notice to any agent nor knowledge possessed by any agent or any other person be held to effect a waiver or change in any part of this contract, and none of the conditions and provisions hereof shall be held to be waived unless such waiver

**No Alteration or waiver of condition.**

be written upon or attached hereto and executed by the Company, Attorney-in-Fact; and the Insured agrees upon the acceptance of this Indemnity Contract that its terms embody all agreements between himself and the Attorney-in-Fact, Agents and Subscribers to the Indemnity Exchange, or any of them relating to the insurance referred to herein.

**Termination.**

P. This Indemnity Contract may be terminated at any time by Attorney-in-Fact for any violation of its conditions, and it may be cancelled by either party hereto on the 1st or 15th day of any calendar month by written notice given five days prior to said date. Upon surrender of this Indemnity Contract Subscriber shall receive the amount standing to the credit of his/her account on the books of the Indemnity Exchange on date of termination, provided that the Subscriber expressly agrees that Attorney-in-Fact shall deduct from any amount otherwise payable upon the termination or cancellation of this contract, such an amount as Attorney-in-Fact shall deem necessary to

**Cancellation.**

pay and discharge the Subscriber's liability in connection with any unliquidated or contingent claim or claims.

LIX—*Continued*

**Contract Period.** Q. The contract period shall be_____months beginning on the _____day of _____191__ at noon, and ending on the _____day of_____ 191__ at noon, standard time.

**Premium Deposit.** R. The premium deposit for this Indemnity Contract shall be

_____ Dollars, payable at the Home Office of the Indemnity Exchange. Twenty-five per cent. of said premium deposit shall be retained by Company in consideration of its agreeing to act as Attorney-in-Fact for the purposes hereof. The remaining seventy-five per cent. shall be placed to the credit of the Subscriber upon the books of the Indemnity Exchange, and deposited or invested as the Trustees shall designate.

**Accounting.** The fund so created shall be applicable to the payment of adjustments and losses as provided in this Indemnity Contract and a separate and individual account shall be kept by Attorney-in-Fact, which shall be open to the inspection of the Subscriber showing the net amount of his/her premium deposit and the amount of each charge as made against it. Each account shall be chargeable on the 1st and 15th day of each calendar month, with its proper pro rata of loss, State and Federal taxes and any amount properly chargeable thereto.

**Refund.** At the termination or cancellation of this Indemnity Contract, the balance appearing to Subscriber's credit, less such uniform percentage as the Trustees, chosen annually by the Attorney-in-Fact from the Subscribers, may determine to be a proper contribution to a General Contingent Fund, shall be applied on account of further insurance, or upon written request calling for such payment, refunded to the Subscriber.

Subscriber agrees that any amount contributed out of his premium deposits to said General Contingent Fund may be retained by Trustees and applied to any purpose which Attorney-in-Fact deems proper and advantageous to subscribers to Indemnity Exchange.

No term or condition of this Indemnity Contract is intended to create, creates, or shall be construed to create a partnership or mutual insurance association; or to give rise to or create any joint or general liability.

This contract is made and accepted subject to the foregoing terms and conditions and no provisions or terms affecting the indemnity under this contract exist unless written hereon.

IN WITNESS WHEREOF the Subscribers to Indemnity Exchange have caused these presents to be executed this_____day of_____A. D., 191

COMPANY, Attorney-in-Fact.

**Examined by**

Attest *Secretary.* By *President.*

Indemnity Exchange

No._____

PREMIUM DEPOSIT

Fire and Theft . . . . $_____

Collision . . . . . _____

Property Damage . . . _____

Personal Liability . . . _____

Total . . . . . $_____

The period of this Indemnity Contract is

from _____ 191__

to _____ 191__

In case of accident at once notify

CO.

## LX

## LLOYDS ASSOCIATION

## UNDERWRITERS COMPOSING ASSOCIATION

| *Name and Address* | *Liability assumed* |
|---|---|
| Frederick Loeser & Co., Brooklyn, N. Y. | $40,000 |
| Lamson & Hubbard Co., Brooklyn, N. Y. | $20,000 each |
| Lord & Taylor, New York | |
| Arnold, Constable & Co., Fifth avenue, New York | |
| R. H. Macy & Co., Broadway, New York | |
| Stern Brothers, 37 West Forty-second street, New York | |
| Abraham & Strauss, 422 Fulton street, Brooklyn, N. Y. | |
| Woodward & Lothrop, Washington, D. C. | |
| B. Altman & Co., New York | |
| R. H. White Co., Boston, Mass. | |
| Strawbridge & Clothier, Philadelphia, Pa. | |
| The Pittsburg Dry Goods Co., Pittsburgh, Pa. | |
| Emery-Beers Co., New York | |
| The John Shillito Co., Cincinnati, Ohio | |
| John Wanamaker, New York | |
| C. F. Hovey & Co., Boston, Mass. | |
| Best & Co., New York | |
| N. Snellenburg & Co., Philadelphia, Pa. | |
| Wheeler & Motter, Mercantile Co., St. Joseph, Mo. | |
| Brooks Brothers, New York | |
| American Lithographic Co., New York | |
| Carson Pirie Scott & Co., Chicago, Ill. | |
| Kaufman Dept. Stores, Pittsburgh, Pa | |
| Sibley, Lindsay & Curr Co., Rochester, N. Y. | |
| L. Bamberger & Co., Newark, N. J. | |
| Fownes Bros Co., New York | |
| Cooper, Coate & Casey Dry Goods Co., Los Angeles, Cal. | |
| James McCreery & Co., New York | |
| Campbell, Metzger & Jacobson, New York | |
| Kaufman & Baer Co., Pittsburgh, Pa. | |
| National Cloak & Suit Co., New York | |
| Wm. Taylor, Son & Co., Cleveland, Ohio | |
| J. L. Hudson Co., Detroit, Mich. | |
| L. F. Dommerich & Co., New York | |
| Passavant & Co., New York | |
| L. Grief & Bro., Baltimore, Md. | |
| The Halle Bros. Co., Cleveland, Ohio | |
| Wm. Islin Co., New York | |
| John Taylor Dry Goods Co., Kansas City, Mo. | |
| Hy Sonneborne Co., Baltimore, Md. | |
| Schefer, Schramm & Vogel, New York | |
| Gimbel Bros., New York | |
| Western Dry Goods Co., Seattle, Wash. | |
| Greeff & Co., New York | |

LX—*Continued*

| | |
|---|---|
| Gimbel Bros., Incorporated, Milwaukee, Wis. | |
| Lesher, Whitman & Co., 670 Broadway, New York | |
| The May Department Stores Co., St. Louis, Mo. | |
| The May Co., Cleveland, Ohio | |
| H. C. F. Koch & Co., 132 West 125th street, New York | |
| W. M. Whitney & Co., Albany, N. Y. | |
| Frank & Dugan, New York | |
| Bloomingdale Bros, New York | $10,000 each |
| Fleitman Co., New York | |
| The H. and S. Pogue Co., Cincinnati, Ohio | |
| Boggs & Buhl, Incorporated, Pittsburgh, Pa. | |
| Endicott, Johnson & Co., New York | |
| Stern & Stern, New York | |
| W. H. McElwain Co., New York | |
| J. H. & C. K. Eagle, New York | |
| The Fair, Monroe and State streets, Chicago, Ill. | |
| The M. O'Neil Co., Akron, Ohio | |
| Stix, Baer & Fuller Dry Goods Co., St. Louis, Mo. | |
| J. Kridel Sons Co., New York | |
| Longley & Michaels Co., San Francisco, Cal. | |
| Bullocks, a corporation, Los Angeles, Cal. | |

| | |
|---|---|
| L. S. Donaldson & Co., Minneapolis, Minn. | |
| The Denver Dry Goods Co., Denver, Colo. | |
| S. Kann Sons & Co., Washington, D. C. | |
| Jones, McDuffie & Stratton Co., Boston, Mass. | |
| Browning, King & Co., 16 Cooper square, New York | |
| Frederick Vietor & Achelis, New York | |
| Weinstock, Lubin & Co., Sacramento, Cal. | |
| Hochchild, Kohn & Co., Baltimore, Md. | |
| Dives, Pomery & Stewart, Harrisburg, Pa. | |
| Emery Bird Thayer Dry Goods Co., Kansas City, Mo. | |
| The Hunter & Tuppen Co., Syracuse, N. Y. | |
| R. H. Stearns & Co., Boston, Mass. | |
| Aitken, Son & Co., New York | $5,000 each |
| McGibbon & Co., New York | |
| Hager & Bro., Lancaster, Pa. | |
| Rosenbaum Co., Pittsburgh, Pa. | |
| J. K. Stifel & Co., New York | |
| Hahne & Co., Newark, N. J. | |
| Sharp & Dohme, Inc., Baltimore, Md. | |
| L. Herzog & Bros. Dry Goods Co., St. Louis, Mo. | |
| Meier & Frank Co., Portland, Ore. | |
| Greenshields, Ltd., Montreal, Can. | |
| Adams, Flanigan Co., New York | |
| Susquehanna Silk Mills, New York | |
| A. Lisner, Washington, D. C. | |
| Gladding Dry Goods Co., Providence, R. I. | |

LX—*Continued*

INCOME

| | | |
|---|---|---|
| Gross premiums | $121,329.95 | |
| Deduct return premiums | 1,710.88 | |
| Total net premiums written | | $119,619.07 |
| Interest: | | |
| Bonds | $16,084.95 | |
| Deposits | 1,765.48 | |
| Total | | 17,850.43 |
| Total Income | | $137,469.50 |
| Ledger Assets December 31 of previous year | | 430,595.62 |
| Total | | $568,065.12 |

DISBURSEMENTS

| | |
|---|---|
| Losses less discounts | $349.84 |
| Expenses of adjustment and settlement of losses | 28.00 |
| Commissions or brokerage | 17,942.85 |
| Salaries, fees and other charges of officers, directors, attorneys in fact and home office employees | 146.20 |
| Legal expenses | 500.00 |
| Fire department, patrol and salvage corps assessments, fees, taxes and expenses | 738.82 |
| State taxes on premiums | 495.19 |
| Insurance department licenses and fees | 139.00 |
| All other licenses, fees and taxes | 980.97 |
| Miscellaneous | 102.13 |
| Dividends to subscribers | 41,220.10 |
| *Gross decrease by adjustment, in book value of ledger assets, viz.:* | |
| Bonds | 9,390.00 |
| Total Disbursements | $72,033.10 |
| Balance | $496,032.02 |

LEDGER ASSETS

| | |
|---|---|
| Book value of bonds | $401,720.00 |
| Deposits in trust companies and banks *on interest* | 93,805.17 |
| Agents' balances representing business written subsequent to October 1, 1918 | 506.85 |
| Total | $496,032.02 |

NON-LEDGER ASSETS

| | |
|---|---|
| Interest accrued on bonds | 4,514.34 |
| Market value of bonds over book value | 2,500.00 |
| Total Assets | $503,046.36 |

LX—*Continued*

LIABILITIES

| | |
|---|---|
| Unearned premiums | $59,016.30 |
| Contingent commissions or other charges due or accrued | 905.59 |
| Liabilities | $59,921.89 |
| Surplus | 443,124.47 |
| Total | $503,046.36 |

RISKS AND PREMIUMS

| | *Fire Risks* | *Premiums* |
|---|---|---|
| In force December 31, 1917 | $26,892,000 | $91,360.08 |
| Written or renewed in 1918 | 31,234,000 | 121,329.95 |
| Totals | $58,126,000 | $212,690.03 |
| Deduct expirations and cancellations | 24,494,700 | 94,657.44 |
| In force December 31, 1918 | $33,631,300 | $118,032.59 |

RECAPITULATION OF FIRE RISKS AND PREMIUMS

| *Year Written* | *Term* | *Amount Covered* | *Gross Premiums Charged, Less Reinsurance* | *Fraction Unearned* | *Premiums Unearned* |
|---|---|---|---|---|---|
| 1918 | One year or less... | $33,631,300 | $118,032.59 | ½ | $59,016.30 |

LXI

MARINE INSURANCE BINDER

BLANK & CO. No.....

INSURANCE

*To*.....Blank Insurance Co.....

*Insure for*.....John Jones.....

*For account of*.. ..Henry Smith.....*Loss payable to*....John Jones.....

.....*on*.....(description of subject matter).....

.....

*Valued at*.....

*Per* .....

*At and from*.....

*To* .....

.....(Here clauses and warranties).....

.....

*Bill of Lating dated:*.....*Time of* { *Sailing* ..... / *Arriving* ..... }

.....*192*

*Rate*.....*per cent. Premium*..... APPROVED

Form No.

LXII

MARINE CARGO POLICY

Insurance Company of

No._____

CARGO.

_____ON ACCOUNT OF_____

In case of loss to be paid in funds current in the United States, to_____

Do make Insurance, and cause_____to be insured, lost or not lost, at and from

( IN THIS SPACE IS ATTACHED THE FORM CONTAINING THE NUMEROUS ENDORSEMENTS, SPECIMEN FORM TO BE ATTACHED TO THIS POLICY IS SHOWN ON THE FOLLOWING TWO PAGES ED. )

upon all kinds of lawful goods and merchandises, laden or to be laden on board the good whereof is master for this present voyage or whoever else shall go as master in the said vessel, or by whatever other name or names the said vessel, or the master thereof, is or shall be named or called.

**Beginning** the adventure upon the said goods and merchandises, from and immediately following the loading thereof on board of the said vessel, as aforesaid, and so shall continue and endure until the said goods and merchandises shall be safely landed as aforesaid. AND it shall and may be lawful for the said vessel, in her voyage, to proceed and sail to, touch and stay at, any ports or places, if thereunto obliged by stress of weather, or other unavoidable accident, without prejudice to this insurance. The said goods and merchandises, hereby insured, are valued (premium included) at **as per form attached.**

**Touching** the adventures and perils which the said INSURANCE COMPANY OF is contented to bear, and takes upon itself in this voyage, they are of the *seas, fires, jettisons, barratry of the master and mariners,* unless the assured on cargo be in part owner of the vessel, and all other perils, losses and misfortunes (illicit or contraband trade excepted in all cases), that have or shall come to the hurt, detriment or damage of the said goods and merchandises, or any part thereof. AND in case of any loss or misfortune, it shall be lawful and necessary to and for the assured, his or their factors, servants and assigns, to sue, labor and travel for, in and about the defence, safeguard and recovery of the said goods and merchandises, or any part thereof, without prejudice to this insurance; nor shall the acts of the assured or insurers, in recovering, saving and preserving the property insured, in case of disaster, be considered a waiver or an acceptance of abandonment; to the charges whereof, the said Insurance Company will contribute according to the rate and quantity of the sum herein insured: having been paid the consideration for this insurance by the assured, or his or their assigns, at and after the rate of

**And** in case of loss, such loss to be paid in thirty days after proof of loss, proof of interest, and adjustment exhibited to the insurers (the amount of the Note given for the premium, if unpaid, and all sums due to the Company from the assured when such loss becomes due being first deducted, and all sums coming due being first paid or secured to the satisfaction of the insurers), but no partial loss or

5—Proofs of loss to be authenticated by the Agent of this Company, if there be one where such proofs are taken; otherwise by a Correspondent of the National Board of Marine Underwriters, if there be one where such proofs are taken, but if neither is represented, then by some other recognized Insurance Authority.

6—The sound value at the port or place of destination outward is to be deemed not to exceed the purchasing price at the shipping port, and ten per cent. added thereto, exclusive of duty and freight.

7—The Company to be entitled to premium on all risks covered hereby, whether reported or not; but should assured fail to report any such risks, or to pay premium or premium note when due, then the policy as to all subsequent risks shall at the option of the Company become null and void.

particular average shall in any case be paid, unless amounting to *five per cent.* PROVIDED ALWAYS, and it is hereby further agreed, that if the said assured shall have made any other insurance upon the property aforesaid, prior in day of date to this Policy, then the said INSURANCE COMPANY OF shall be answerable only for so much as the amount of such prior insurance may be deficient towards fully covering the property hereby insured. And the said INSURANCE COMPANY OF shall return the premium upon so much of the sum by them insured as they shall be by such prior insurance exonerated from. And in case of any insurance upon the said property subsequent in day of date to this policy, the said INSURANCE COMPANY OF shall nevertheless be answerable for the full extent of the sum by them subscribed hereto without right to claim contribution from such subsequent insurers. And shall accordingly be entitled to retain the premium by them received in the same manner as if no such subsequent insurance had been made. Other insurance upon the property aforesaid, of date the same day as this policy, shall be deemed simultaneous herewith; and the said INSURANCE COMPANY OF shall not be liable for more than a ratable contribution in the proportion of the sum by them insured to the aggregate of such simultaneous insurance. IT IS ALSO AGREED, that the subject matter of this insurance be warranted by the assured free from loss or damage caused by strikers, locked out workmen or persons taking part in labor disturbances, or arising from riot, civil commotion, capture, seizure, or detention or from any attempt thereat, or the consequences thereof, or the direct or remote consequences of any hostilities, arising from the acts of any government, people, or persons whatsoever (ordinary piracy excepted), whether on account of any illicit or prohibited trade, or any trade in articles contraband of war, or the violation of any port regulation, or otherwise. Also free from loss or damage resulting from measures or operations incident to war, whether before or after the declaration thereof.

In the event of risk of war being assumed by endorsement under this policy, the assured warrant not to abandon in case of capture, seizure or detention, until after the condemnation of the property insured; nor until ninety days after notice of said condemnation is given to this Company. Also warranted not to abandon in case of blockade, and free from any expense in consequence of detention or blockade; but in the event of blockade, to be at liberty to proceed to an open port and there end the voyage.

**Memorandum.** It is also agreed, that bar, bundle, rod, hoop and sheet iron, wire of all kinds, tin plates, steel, madder, sumac, brooms, wicker-ware and willow (manufactured or otherwise), straw goods, salt, grain of all kinds, rice, tobacco, Indian meal, fruits (whether preserved or otherwise), cheese, dry fish, hay, vegetables and roots, paper, rags, hempen yarn, bags, cotton bagging, and other articles used for bags or bagging, pleasure carriages, household furniture, skins and hides, musical instruments, looking-glasses, and all other articles that are perishable in their own nature, are warranted by the assured free from average, unless general; hemp, tobacco stems, matting and cassia, except in boxes, free from average under *twenty per cent.*, unless general; and sugar, flax, flax-seed and bread, are warranted by the assured free from average under *seven per cent.*, unless general: and coffee, in bags or bulk, pepper, in bags or bulk, free from average under *ten per cent.*, unless general. Profits warranted free from claim for general average, but subject to the same per centum of partial loss as if the insurance were on goods. In case a total loss of profits be claimed, the Underwriters to be entitled to a credit of the same per centum of salvage as if the insurance were on goods, and in case of contribution in General Average for any portion of the goods at the customary sound value, this Company to be free from claim for loss on such portion. Not liable for loss on or damage to any goods shipped on deck.

Warranted by the assured free from damage or injury from dampness, change of flavor, or being spotted, discolored, musty or mouldy, unless caused by actual contact of sea water with the articles damaged, occasioned by sea perils. In case of partial loss by sea damage to dry goods, cutlery, or other hardware, the loss shall be ascertained by a separation and sale of the portion only of the contents of the packages so damaged, and not otherwise; and the same practice shall obtain as to all other merchandise as far as practicable. Not liable for leakage on molasses or other liquids, unless occasioned by stranding or collision with another vessel.

Warranted by the assured that this insurance shall not enure directly or indirectly to the benefit of the carrier or other bailee, by stipulation in bill of lading or otherwise, and any breach of this warranty, and any act or agreement by the assured, prior or subsequent hereto, whereby any carrier or party liable for or on account of loss of or damage to any property insured hereunder, is given the benefit of any insurance effected thereon, shall render this policy of insurance null and void.

In case of any agreement by the assured, prior or subsequent hereto, whereby any right of recovery of the assured for loss of or damage to any property insured hereunder, against any person or corporation, is released, impaired or lost, which would on acceptance of abandonment or payment of a loss by this Company, have enured to its benefit, but for such agreement or act, this Company shall not be bound to pay any loss, but its right to retain or recover the premium shall not be affected.

Warranted by the assured, that the assignment of this policy or of any insurable interest therein, as also that the subrogation of any right thereunder to any party, without the consent of this Company, shall render the insurance affected by such assignment or subrogation, void.

**In Witness Whereof,** the President or Vice-President of the said INSURANCE COMPANY OF hath hereunto subscribed his name, and this Policy is made and accepted upon the above express condition, the day of A. D. one thousand nine hundred and

ASSURED. BROKER

1—Warrated that no claim shall be made in General Average arising from the loss or jettison of Merchandise from on deck.
2—Warrated that in case of partial loss no merchandise this Company shall have notice of such damage within eight days after the landing of the goods at the port of delivery.
3—All risks to be reported as soon as known and amounts declared as soon as ascertained.
4—This Policy shall be deemed continuous, but it is understood that either party is at liberty to cancel this policy at any time, on giving thirty days written notice to that effect, which is not, however, to prejudice any risk then pending.

LXII—*Continued*

## CARGO FORM MARINE OPEN POLICY ON EXPORTS

### JOHN JONES & COMPANY

1. For account of whom it may concern.
2. Loss, if any, payable to Them or Order.
3. To cover all goods and/or merchanidse shipped by JOHN JONES & COMPANY, (hereinafter referred to as the Assured), or by others for their account, or in which they may have an interest, or for which they may receive instructions to insure; said instructions to be given in writing prior to sailing of vessel and prior to known or reported loss or damage.
4. Per steamer and/or steamers including vessels propelled by oil, gas and/or electric machinery and/or connecting railroad conveyances.
5. Sailing on and after FEBRUARY 13th, 1919.
6. To be insured at and from PHILADELPHIA, PA., to.....
7. To cover on merchandise, consisting principally of..... subject to the following conditions:

8a. WHILE WATERBORNE:

Subject to 3% Particular Average on each Shipping Case or Package.
Subject to 5% Particular Average on each Shipping Case or Package.
Free of particular average, unless the vessel be stranded, sunk, burned or in collision.

8b. WHILE ON LAND:

While goods are on railroad or other land conveyance, only the risks of fire, collision, derailment and loss occasioned by rising navigable water are covered under this policy.

While goods are on wharf, the risks of fire and rising navigable water only are covered by this policy.

9. It is understood and agreed that this insurance attaches from the time the goods leave factory, store, or warehouse at initial point of shipment and covers thereafter continuously, in due course of transportation, until same are delivered at store or warehouse at destination, but only from and to the ports and/or places as declared to this Company; but that on shipments to River Plate Ports the risk hereunder shall cease upon arrival of the goods at any shed (transit or otherwise), store, custom house or warehouse or upon the expiry of ten days subsequent to landing, whichever may first occur, and that on shipments to Russia, Siberia, China, India, East Indies, North and West Coast of South America and Mexico, the risk hereunder shall terminate upon discharge of the goods from the vessel.
10. Valued, for insurance purposes at.....
11. This policy shall not be vitiated by any unintentional error in description of voyage or interest, or by deviation, provided the same be communicated to the insurers as soon as known to the assured, and an additional premium paid if required, but it is understood and agreed that this clause does not, in any way, cover the risk of war, riot or civil commotion, or prejudice the printed wording of the policy excluding risks of this nature.
12. Including risk of lighterage to and from the vessel, each craft or lighter to be considered as if separately insured.
13. The presence of the Negligence Clause and/ or latent Defect Clause in the Bills of Lading, and/or Charter Party, not to prejudice this insurance.

LXII—*Continued*

14. Seaworthiness of vessel and/or vessels and/or craft is hereby admitted as between the Underwriters and Assured.
15. The risks covered by this policy are to include loss, damage or expense resulting from explosion, howsoever or wheresoever occurring but it is specially understood and agreed that the above wording is not intended to cover the risks of war, riot or civil commotion or to in any way prejudice the printed wording of the policy excluding risks of this nature.
16. This policy also covers the customs duties chargeable upon the merchandise insured hereunder upon arrival and entry; and in case of particular average to the charge of the Company, the same percentage of damage will be made good upon the amount of duties so insured as on the amount of goods, for which insurance a premium as agreed upon is to be charged. It is also agreed that the assured shall, when the insurer so selects, surrender the merchandise to the customs authorities and recover duties thereon as provided by law. In which event the claim under this policy shall be for a total loss of such portion at insured value as provided therein, and expenses only.
17. In case of damage affecting labels only, loss to be limited to an amount sufficient to pay the cost of new labels and relabelling the goods.
18. MACHINERY CLAUSE:

    In case of loss or injury to any part of a machine, consisting, when complete for sale or use, of several parts, the insurers shall only be liable, for the insured value of the part lost or damaged.

    Warranted that this insurance shall not inure to the benefit of any carrier.
19. This Company not to be liable for more than $....., per any one vessel or conveyance, or in any one place at any one time, unless otherwise agreed upon.
20. This policy to be deemed continuous, and to cover all shipments as herein provided, until cancelled by either party giving the other thirty days' written notice to that effect. However, such notice of cancellation shall not prejudice any risk then pending.

    It is expressly understood and agreed, anything to the contrary in this Policy notwithstanding, that on shipments to ports and/or places on the Continent of Europe, in countries at war, the risk hereunder shall cease upon discharge of the merchandise from the vessel at seaport.

    The effect of this stipulation to terminate as to any country upon the establishment of peace therein.

    Warranted not to cover the interest of any partnership corporation, association or person, insurance for whose account would be contrary to the Trading with the Enemy Acts, or other statutes or prohibitions of the United States.

LXIII

AMERICAN HULL FORM 1917—MARINE HULL POLICY

FOR ACCOUNT OF

LOSS, IF ANY, PAYABLE TO OR ORDER,

DO MAKE INSURANCE AND CAUSE TO BE INSURED, LOST OR NOT LOST,

TO THE AMOUNT OF DOLLARS

AT AND FROM THE DAY OF 19

UNTIL THE DAY OF 19

(BEGINNING AND ENDING WITH

BUT WARRANTED AS FOLLOWS:

Upon the body, tackle, apparel, stores, ordnance, munitions, artillery, boats, and other furniture, boilers and machinery of the Steamship called the S. S. or by whatsoever name or names the said Vessel is or shall be named or called; beginning the adventure upon the said Vessel, &c., as above, and so shall continue and endure during the period aforesaid, as employment may offer, in port and at sea, in docks and graving docks, and on ways, gridirons and pontoons, at all times, in all places, and on all occasions, services and trades whatsoever and wheresoever, under steam or sail; with leave to sail with or without pilots, to tow and be towed, and to assist vessels and/or craft in all situations and to any extent, and to go on trial trips. With liberty to discharge, exchange and take on board goods, specie, passengers, and stores, wherever the Vessel may call at or proceed to, and with liberty to carry goods, live cattle, &c., on deck or otherwise, but warranted free of any claim in respect of deck cargo. Including all risks of docking, undocking, changing docks, or moving in harbour and going on or off gridiron or graving docks as often as may be done during the currency of this Policy.

The said Ship, &c., for so much as concerns the Assured, by agreement between the Assured and Assurers in this Policy, are and shall be valued as follow:

Hull, tackle, apparel, furniture, &c. ..... ..... .....$

Boilers, machinery, &c., and everything connected therewith .....$ } $

Donkey boilers, winches, cranes, windlasses, steering gear and electric light apparatus, shall be deemed to be part of the hull and not part of the machinery. Refrigerating machinery and insulation appertaining thereto not covered unless expressly included in this Policy, or unless the property of the owners of the Vessel.

*The Insurers* to be paid in consideration of this insurance Dollars,
being at the rate of per cent.

"Warranted that the amount insured for account of the Assured and/or their managers on Disbursements, Commissioners and/or similar interests "policy proof of interest" or "full interest admitted" or on excess or

increased value of Hull or Machinery however described shall not, except as indicated below, exceed 15% of the insured valuation of the Vessel, but the assured may in addition thereto effect "policy proof of interest" or "full interest admitted" insurance on any of the following interests.

Premiums (reducing not reducing monthly) to any amount actually at risk, and

Freight and/or Chartered Freight and/or Anticipated Freight and/or Earnings and/or Hire or Profits on Time Charter and/or Charter for series of voyages for any amount not exceeding in the aggregate 25% of the insured valuation of the Vessel; and if the actual amount at risk on any or all of such interests shall exceed such 25% of the insured valuation of the Vessel, the Assured and/or their managers may, without prejudice to this warranty, insure whilst at risk the excess of such interests reducing as earned.

Provided always that a breach of this warranty shall not afford underwriters any defense to a claim by mortgagees or other third parties who may have accepted this policy without notice of such breach of warranty, nor shall it restrict the right of the Assured and/or their managers to insure in addition General Average and/or Salvage Disbursements whilst at risk.

*Touching the Adventures and Perils* which we, the said Assurers, are contented to bear and take upon us, they are of the Seas, Men-of-War, Fire, Enemies, Pirates, Rovers, Thieves, Jettisons, Letters of Mart or Counter-Mart, Surprisals, Takings at Sea, Arrests, Restraints and Detainments of all Kings, Princes and Peoples, of what nation, condition or quality soever, Barratry of the Master andMariners, Explosions, Riots, or other causes of whatsoever nature arising either on shore or otherwise, causing Loss of or injury to the Property hereby insured, and of all other Perils, Losses, and Misfortunes that have or shall come to the Hurt, Detriment, or Damage of the said Ship, &c., or any part thereof. And in case of any Loss or Misfortune, it shall be lawful for the Assured, their Factors, Servants, and Assigns, to sue, labour, and travel for, in, and about the Defence, Safeguard, and Recovery of the said ship, &c., or any part thereof, without prejudice to this Insurance to the Charges whereof the Assurers will contribute according to the Rate and Quantity of the sum herein assured. And it is expressly declared and agreed that no act of the Insurer or Insured in recovering, saving or preserving the property insured shall be considered as a waiver or acceptance of abandonment.

*This insurance also especially to cover* (*subject to the free of average warranty*) *loss of, or damage to hull or machinery, through the negligence* of Master, Charterers, Mariners, Engineers, or Pilots, or through explosions, bursting of boilers, breakage of shafts, or through any latent defect in the machinery or hull, provided such loss or damage has not resulted from want of due diligence by the Owners of the Ship, or any of them, or by the Manager, Masters, Mates, Engineers, Pilots, or Crew not to be considered as part owners within the meaning of this clause should they hold shares in the steamer.

And it is further agreed, that *if the Ship hereby insured shall come into collision* with any other Ship or Vessel, and the Assured or Charterers shall in consequence thereof become liable to pay, and shall pay by way of damages to any other person or persons any sum or sums not exceeding in respect of any one such collision the value of the Ship hereby Insured, we, the Assurers, will pay the Assured or Charterers such proportion of such sum or sums so paid as our subscriptions hereby bear to the value of the Ship hereby Insured. And in cases where the liability of

the Ship has been contested with the consent in writing of a majority of the Underwriters on the hull and/or machinery (in amount) we will also pay a like proportion of the costs thereby incurred or paid; but when both Vessels are to blame, then, unless the liability of the Owners or Charterers of one or both of such Vessels becomes limited by law, claims under the Collision Clause shall be settled on the principle of *Cross-Liabilities* as if the Owners or Charterers of each Vessel had been compelled to pay to the Owners or Charterers of the other of such Vessels such one-half or other proportion of the latter's damages as may have been properly allowed in ascertaining the balance or sum payable by or to the Assured or Charterers in consequence of such collision; and it is further agreed that the principles involved in this clause shall apply to the case where both Vessels are the property, in part or in whole, of the same Owners or charterers, all questions of responsibility and amount of liability as between the two ships being left to the decision of a single Arbitrator, if the parties can agree upon a single Arbitrator, or failing such agreement, to the decision of Arbitrators, one to be appointed by the Managing Owners or Charterers of both Vessels, and one to be appointed by the Majority (in amount) of Underwriters interested in each Vessel; the two Arbitrators chosen to choose a third arbitrator before entering upon the reference, and the decision of such single or of any two of such three Arbitrators appointed as above to be final and binding. *Provided always* that this clause shall in no case extend to any sum which the Assured or Charterers may become liable to pay, or shall pay for removal of obstructions under statutory powers, for injury to harbours, wharves, piers, stages, and similar structures, consequent on such collision, or in respect of the cargo or engagements of the Insured Vessel, or for loss of life, or personal injury. And provided also that in the event of any claim being made by Charterers under this clause they shall not be entitled to recover in respect of any liability to which the Owners of the Ship, if interested in this Policy at the time of the Collision in question, would not be subject, nor to a greater extent than the Shipowners would be entitled in such event to recover.

And it is further agreed that in the event of salvage, towage, or other assistance being rendered to the Vessel hereby insured by any Vessel belonging in part or in whole to the same Owners or Charterers, the value of such services (without regard to the common ownership of the Vessels) shall be ascertained by arbitration in the manner above provided for under the Collision Clause, and the amount so awarded so far as applicable to the interest hereby insured shall constitute a charge under this Policy.

*General Average and Salvage Charges payable* in accordance with York-Antwerp Rules, 1890, if so provided for in the contract of affreightment. As regards matters not provided for in the York-Antwerp Rules, 1890 (when the contract of affreightment provides for such rules), and also when the contract of affreightment does not provide for such rules, General Average and salvage charges shall be payable in accordance with the laws and usages of the United States. Provided always that when an adjustment according to the laws and usages of the port of destination is properly demanded by the owners of the cargo, General Average shall be paid in accordance with same.

No claim shall be allowed in respect of scraping or painting the Vessel's bottom except as provided in Rule of Practice VIII of the Association of Average Adjusters of the United States.

Grounding in the Panama Canal or in the Suez Canal or in the Manchester Ship Canal or its connections, or in the River Mersey above Rock Ferry Slip, or in the River Plate (above Buenos Aires) or its tributaries, or in the Danube, Demerara, or Bilbao River or on the Yenikale or Bilbao Bar, shall not be deemed a stranding.

*Average payable on each valuation* separately or on the whole, without deduction of thirds, new for old, whether the average be particular or general.

In no case shall Underwriters be liable for unrepaired damage in addition to a subsequent total loss sustained during the term covered by this Policy.

*In ascertaining whether the Vessel is a constructive total loss* the insured value shall be taken as the repaired value, and nothing in respect of the damaged or break-up value of the Vessel or wreck shall be taken into account.

In the event of total or constructive total loss, no claim to be made by the Underwriters for freight, whether notice of abandonment has been given or not.

*Notwithstanding anything herein contained to the contrary this Policy is warranted free from particular average under 3 per cent., or unless amounting to* $4.850, but nevertheless when the Vessel shall have been stranded, sunk, on fire, or in collision with any other Ship or Vessel, Underwriters shall pay the damage occasioned thereby, and the expense of sighting the bottom after stranding shall be paid, if reasonably incurred, even if no damage be found.

*The warranty and conditions as to average under 3 per cent to be applicable to each voyage* as if separately insured, and a voyage shall be deemed to commence at one of the following periods to be selected by the Assured when making up the claim, viz.: at any time at which the Vessel (1) begins to load cargo or (2) sails in ballast to a loading port. Such voyage shall be deemed to continue during the ensuing period until either she has made one outward and one homeward passage (including an intermediate ballast passage, if made) or has carried and discharged two cargoes, whichever may first happen, and further, in either case, until she begins to load a subsequent cargo or sails in ballast for a loading port. When the Vessel sails in ballast to effect damage repair such sailing shall not be deemed to be a sailing for a loading port although she loads at the repairing port. In calculating the 3 per cent. above referred to, particular average occurring outside the period covered by this Policy may be added to particular average occurring within such period provided it occur upon the same voyage (as above defined), but only that portion of the claim arising within such period shall be recoverable hereon. The commencement of a voyage shall not be so fixed as to overlap another voyage on which a claim is made on this or the preceding Policy.

*Should the Vessel at the expiration of this Policy be at sea,* or in distress, or at a port of refuge or of call, she shall, provided previous notice be given to the Underwriters, be held covered at a pro rata monthly premium to her port of destination.

*Should the Vessel be sold or transferred to other ownership,* then, unless the Underwriters agree in writing to such sale or transfer, this Policy shall thereupon become cancelled from date of sale or transfer, unless the Vessel has cargo on board and has already sailed from her loading port, or is at sea in ballast, in either of which cases such cancellation be suspended until arrival at final port of discharge if with cargo, or at port of destination if in ballast. A pro rata daily return of premium shall be made.

*Notwithstanding anything herein contained to the contrary,* this policy is warranted free of capture, seizure,

arrest, restraint, or detainment, and the consequences thereof, or of any attempt thereat (piracy excepted) and also from all consequences of hostilities or warlike operations, whether before or after declaration of war.

*To return net* { per cent. for each uncommenced month if it be mutually agreed to cancel this Policy. / per cent. net for each consecutive days the Vessel may be laid up in port:— } and arrival.

A period in port falling between two insurances to be allowed pro rata on each, underwriters on each insurance agreeing to pay their pro rata proportion of the Return due.

*In the event of accident* whereby loss or damage may result in a claim under this Policy, *notice shall be given to the Underwriters,* where practicable, prior to survey, so that they may *appoint their own Surveyor if they so desire;* and whenever the extent of the damage is ascertainable, the majority (in amount) of the Underwriters may take or may require the Assured to take tenders for the repair of such damage. In cases where a tender is accepted by or with the approval of Underwriters, the Underwriters will make an allowance at the rate of 30 per cent. per annum on the insured value for the time actually lost in waiting for tenders. *In the event of the Assured failing to comply with the conditions of this clause* 15 *per cent. shall be deducted from the amount of the ascertained claim.*

*Held covered* in case of any breach of warranty as to cargo, trade, locality, or date of sailing, provided notice be given, and any additional premium required be agreed immediately after receipt of advices of breach or proposed breach by Owners.

Where the Assured has paid, or is liable for, any General Average contribution and the contributory value is greater than the insured value, the amount recoverable under this policy shall be only in the proportion that the amount insured hereunder bears to the contributory value and where the contributory value has been reduced by a Particular Average for which these Assurers are liable, the amount of Particular Average Claim under this policy shall be deducted from the amount insured under this policy in order to ascertain what share of the contribution is recoverable from these Assurers; the extent of the liability of these Assurers for salvage shall be computed on the same principle.

In event of non-payment of premium thirty days after attachment this policy may be cancelled by the Assurers upon five days written notice being given the assured.

No recovery for a Constructive Total Loss shall be had hereunder, unless the expense of recovering and repairing the vessel shall exceed the insured value.

The terms and conditions of this form are to be regarded as substituted for those of policy form to which it is attached, the latter being hereby waived.

## LXIV

## MARINE PROTECTION AND INDEMNITY CLAUSE

And we further agree that if the assured shall become liable to pay and shall pay any sum or sums in respect of any responsibility, claim, demand, damages and/or expenses, or shall incur any other loss arising from or occasioned by any of the following matters or things during the currency of this Policy in request to the ship hereby insured, that is to say:—

Loss or damage in respect of any other ship or boat or in respect of any goods, merchandise, freight or other things or interests whatsoever, on board such other ship or boat, caused proximately or otherwise by the vessel insured in so far as the same is not covered by the running down clauses hereto attached.

Loss or damage to any goods, merchandise, freight or other things or interests whatsoever, other than as aforesaid, whether on board said steamship or not, which may arise from any cause whatever.

Loss of life or personal injury and from payments made on account of life or other salvage.

Loss or damage to any harbor, dock, graving or otherwise, slipway, way, gridiron, pontoon, pier, quay, jetty, stage, buoy, telegraph cable, or other fixed or movable thing whatsoever, or to any goods or property in or on the same, howsoever caused.

Any attempted or actual raising, removal or destruction of the wreck of the said steamship or the cargo thereof, or any neglect or failure to raise, remove or destroy the same.

Any sum or sums for which the assured may become liable or incur from causes not hereinbefore specified, but which are or have heretofore been absolutely or conditionally recoverable from or undertaken by the ..... ..... Protective Association, Limited, and/or ..... Association.

We will pay the assured such proportion of such sum or sums so paid, or which may be required to indemnify the assured for such loss as our respective subscriptions bear to the Policy value of the ship hereby assured, and in case the liability of the assured has been contested with the consent in writing of two-thirds of the Underwriters on the ship hereby insured in amount, we will also pay a like proportion of the costs which the assured shall thereby incur or be compelled to pay.

Notwithstanding the foregoing this Policy is warranted free from any claim arising directly or indirectly under Workmen's Compensation Acts of any State or Nation.

Attached to and forming a part of Policy No....., of the.....

INSURANCE COMPANY, of .....

.....*Agent*

LXV

WAR RISK CLAUSE

It is agreed that this insurance includes the risk of capture, seizure or destruction or damage by men of war, by letters of mart, by takings at sea, arrests, restraints, detainments and acts of kings, princes and people, authorized by and in prosecution of hostilities between belligerent nations; but excluding claims for delay, deterioration and/or loss of market and warranted not to abandon in case of capture, seizure or retention, until after condemnation of the property insured, nor until ninety days after notice of said condemnation is given to these Assurers. Also warranted not to abandon in case of blockade, and free from any claim for loss or expense in consequence of blockade or of any attempt to evade blockade; but in event of blockade, to be at liberty to proceed to an open port, and there end the voyage.

*Foregoing clause does not cover any war risks on shore.*

LXVI

ALIEN ENEMY WARRANTY

Warranted not to cover the interest of any partnership, corporation, association or person, insurance for whose account would be contrary to the trading with the enemy acts or other statutes or prohibitions of the United States and/or British Governments.

LXVII

EMBARGO WARRANTY

Warranted free from claim for loss, damage or expense in consequence of any prohibition, restriction or embargo of or by the Government of the United States of America or of any violation or attempted violation thereof.

LXVIII

WARRANTY AGAINST CAPTURE

Warranted free from claim arising from capture, seizure, arrest, restraints, pre-emption or detainments by the Government of the United States.

LXIX

EXPLOSION CLAUSE

The risks covered by this policy are to include loss, damage or expense resulting from explosion howsoever and wheresoever occurring.

LXX

DEVIATION CLAUSE

This policy shall not be vitiated by any unintentional error in description of voyage or interest, or by deviation of vessels from voyage described, provided the same be communicated to assurers as soon as known to the assured, and an additional premium paid if required.

LXXI

WARRANTY OF USE

Warranted to be used solely for private pleasure purposes and not to be hired or chartered unless approved and permission endorsed hereon.

LXXII

AVERAGE CLAUSE

It is understood and agreed that no average is to be deducted in case of total loss payment where the vessel does not remain in specie, or where there is such payment with the transfer of all salvage as provided for in the Policy.

LXXIII

EXTENSION OF COVERAGE

Should the vessel at the expiration of this policy be at sea or in distress or at a port of refuge or of call, the interest hereby insured shall, provided previous notice be given to the Underwriters, be held covered at a pro-rata monthly premium to her port of destination.

LXXIV

F. P. A. CLAUSE

Warranted free from particular average, injury, death, mortality, loss jettison, and/or washing overboard, unless caused by stranding, sinking, burning or collision, but to pay landing, forwarding and special charges if incurred, and general average as per Foreign Statement or York-Antwerp rules if so made up.

Warranted free from any claims for prohibition and/or interdiction of trade and/or enforcement of sanitary regulations.

LXXV

EXTENDED COVERAGE

To cover from the time of leaving consignor's office until delivered to consignee at the place of address.

LXXVI

WARRANTY OF SAFETY

Warranted in safety on .....

LXXVII

WARRANTY OF NEUTRALITY

Warranted neutral ship and neutral property.

LXXVIII

WARRANTY NOT TO ABANDON

The assured warrants not to abandon in case of capture, seizure or detention, until after the condemnation of the property insured; nor until ninety days after notice of said condemnation is given to this company.

LXXIX

REDUCTION OF POLICY

Any and all sums paid hereunder shall reduce this policy by the amounts so paid, unless restored by the payment of new premium, and then this policy shall be in force for the original amount.

LXXX

SAILING WARRANTY

*New York Harbor*—To include Upper and Lower New York Bays, inside a line drawn from Sandy Hook to Norton's Point, North River as far as Piermont, East River as far as Throggs Neck, and tributary inland waters, and the adjacent inland waters of New Jersey.

LXXXI

P. P. I. CLAUSE

"Policy Proof of Interest."

LXXXII

INCEPTION OF RISK CLAUSE

Risk to commence on expiry of previous policies.

LXXXIII

F. P. A. CLAUSE

Free of all particular average under (5) per cent. on each case including breakage, if caused by the vessel being stranded, sunk, burnt, or in collision.

LXXXIV

LOADING WARRANTY

Warranted not to load or carry crude petroleum, naptha, benzine or gasoline.

LXXXV

RETURN OF PREMIUM

To return.....for each 30 consecutive days the vessel is laid up and out of commission.

LXXXVI

GOODS IN ENEMY TERRITORY

*It is hereby mutually understood and agreed* that this policy ceases to apply on goods in any country with which the United States and/or Great Britain may be at war, or to goods in territory in occupation of any hostile power.

LXXXVII

LIGHTERAGE CLAUSE

To cover the risk of lighterage to or from the vessel—each craft or lighter to be considered as if separately insured.

LXXXVIII

MACHINERY CLAUSE

In case of loss of any part of a machine consisting, when complete for sale or use, of several parts, the Insurers shall only be liable for the insured value of part lost.

LXXXIX

LATENT DEFECT CLAUSE

This insurance policy is also specially to cover (subject to the free of average warranty) loss of, or damage to, hull or machinery, through the negligence of master, charterers, mariners, engineers, or pilots, or through explosions, bursting of boilers, breakage of shafts, or through any latent defect in the machinery or hull, provided such loss or damage has not resulted from want of due diligence by the owners of the ship, or any of them, or by the managers, masters, mates, engineers, and pilots or crew not to be considered as part owners within the meaning of this clause should they hold shares in the steamer.

XC

CANCELLATION CLAUSE

This policy is deemed continuous, but either party may cancel it by giving fifteen days' written notice thereof to the other, but said cancellation shall be without prejudice to any risk then pending.

XCI

VALUATION CLAUSE

The said ship, etc., for so much as concerns the assured, by agreement between the assured and insurers in this policy, are and shall be valued as follows: hull, tackle, apparel and furniture $....., machinery and boilers $..... Average payable on each valuation separately, or on the whole.

XCII

LOADING WARRANTY

Warranted not to be loaded in excess of her registered tonnage with either lead, marble, stone, coal or iron; also warranted not to be loaded with lime under deck; and if loading with grain, warranted to be loaded under the inspection of the Surveyor of the Board of Underwriters, and his certificate as to the proper loading and seaworthiness obtained.

XCIII

F. P. A. A. C. CLAUSE

Warranted free of particular average unless caused by stranding, sinking, burning or collision.

XCIV

WARRANTY AGAINST CAPTURE

Warranted free from any claim arising from capture, seizure, arrests, restraints, pre-emption, detainments or confiscation by the British Government or their allies or by the Government of the United States of America.

XCV

F. P. A. E. C. CLAUSE

Free of particular average unless the vessel be stranded, sunk, burnt or in collision.

XCVI

SAILING WARRANTY

Warranted not to ply on the Great Lakes between December 2nd. and April 15th.

XCVII

LEAKAGE CLAUSE

Not liable for leakage unless the vessel be stranded or in collision, or it be caused by forced discharge of cargo at a port of distress, or the same be caused by explosion, or by the vessel coming in contact with any floating or stationary object; provided that in all the above cases the leakage shall amount to over one per cent of the entire cargo on board. A deduction to be made from all settlements of one-fourth of one per cent allowance for ordinary leakage.

XCVIII

F. P. A. CLAUSE

Subject to.....per cent., Particular Average.

XCIX

RIOT AND CIVIL COMMOTION CLAUSE

In consideration of an additional premium of ..... per cent (such premium being subject to revision from day to day), it is agreed that this policy shall also cover destruction of the property insured or damage done to it by strikers, locked-out workmen, or persons taking part in labor disturbances, or riots, or civil commotions, but warranted free of claim for loss, damage, or expense arising from deterioration, loss of market or delay, or from extra handling or storage.

C

SUBROGATION WARRANTY

Warranted by the assured that this insurance shall not enure directly or indirectly to the benefit of the carrier or other bailee, by stipulation in bill of lading or otherwise, and any breach of this warranty, and any act or agreement by the assured, prior or subsequent hereto, whereby any carrier or party liable for or on account of loss of or damage to any property insured hereunder, is given the benefit of any insurance effected thereon, shall render this policy of insurance null and void.

CI

## STATEMENT OF MARINE INSURANCE MUTUAL

## THE ..... MUTUAL INSURANCE COMPANY

INCOME

| | | |
|---|---|---|
| Gross premiums | $6,684,891 55 | |
| Deduct reinsurance premiums $1,450,658 09 | | |
| return premiums 306,278 92 | | |
| | 1,756,937 01 | |
| Total net premiums written | | $4,927,954 54 |
| Interest: | | |
| Bonds and stocks | $418,106 66 | |
| Deposits | 94,547 09 | |
| From other sources | 25,463 75 | |
| Total | | 538,117 50 |
| Rents | | 361,876 35 |
| Miscellaneous | | 194 15 |
| Gain on exchange | | 740 13 |
| Income tax withheld at source | | 3,739 93 |
| Certificates of profits acquired | | 4,310 00 |
| Sundry fees | | 160 00 |
| Gross profit on sale or maturity of ledger assets, viz.: | | |
| Bonds | $2,034 93 | |
| Stocks | 61,538 40 | |
| | | 63,573 33 |
| Total Income | | $5,900,665 93 |
| Ledger Assets, December 31 of previous year | | 19,361,364 77 |
| Total | | $25,262,030 70 |

DISBURSEMENTS

| | | |
|---|---|---|
| Losses less discounts | $4,105,973 64 | |
| Deduct salvage $239,186 51 | | |
| reinsurance 1,947,733 08 | | |
| | 2,186,919 59 | |
| Net losses paid | | $1,919,054 05 |
| Loss adjustment expense | | 7,369 25 |
| Agents' compensation including brokerage | | 240,278 47 |
| Agent's allowances | | 2,750 00 |
| Salaries and fees | | 428,546 14 |
| Rent | | 52,542 51 |
| Furniture and fixtures | | 5,582 76 |
| Inspections and surveys | | 5,404 80 |
| Federal taxes | | 151,562 39 |

CI—*Continued*

| | | |
|---|---|---|
| Taxes, licenses and fees: | | |
| State, county, municipal | $83,081 37 | |
| Insurance department | 139 87 | |
| All other except real estate | 6 00 | |
| | | 83,227 24 |
| Postage, telegraph, telephone, exchange, express | | 5,521 25 |
| Legal expense | | 8,072 20 |
| Advertising and subscriptions, $35,854.02; printing and stationery, $10,713.25 | | 46,567 27 |
| Miscellaneous, including $23,961.18 discount on premiums; $4,532.28 expense and charges of foreign bankers; $11,644.92 taxes on cotton premiums; $3,135.96 income tax witheld at source; $992.81 suspended notes charged off | | 44,747 14 |
| Scrip or certificates of profit redeemed in cash | | 3,270,000 00 |
| Interest to scripholders | | 343,000 00 |
| Real estate repairs and expense, $121,981.24; taxes, $92,260.60 | | 214,241 84 |
| Total Disbursements | | $6,828,467 31 |
| Balance | | $18,433,563 39 |

LEDGER ASSETS

| | |
|---|---|
| Book value of real estate | $3,975,000 00 |
| Book value of bonds, $7,385,153; stocks, $2,424,213.15 | 9,809,366 15 |
| Cash in company's office | 197 36 |
| Deposits in trust companies and banks *not on interest* | 150,000 00 |
| Deposits in trust companies and banks *on interest* | 2,822,612 25 |
| Bills receivable taken for marine and inland risks | 1,380,222 88 |
| Funds with foreign bankers | 286,904 00 |
| Certificates of profits owned by company | 4,320 00 |
| Statutory deposit with state of Queensland, Australia | 4,765 00 |
| Suspended notes | 175 75 |
| Total | $18,433,563 39 |

NON-LEDGER ASSETS

| | | |
|---|---|---|
| Interest due and accrued: | | |
| Bonds | $76,497 72 | |
| Other assets | 19,392 73 | |
| Total | | 95,890 45 |
| Rents due and accrued | | 23,106 40 |
| Market value of real estate over book value | | 63,700 00 |
| Market value of bonds and stocks over book value | | 805,807 81 |
| Reinsurances recoverable on paid losses | | 62,734 31 |
| Gross Assets | | $19,484,802 36 |

DEDUCT ASSETS NOT ADMITTED

| | | |
|---|---|---|
| Company's certificates of profits | $4,320 00 | |
| Bills receivable, past due, taken for risks | 175 75 | |
| Total | | 4,495 75 |
| Total Admitted Assets | | $19,480,306 61 |

CI—*Continued*

LIABILITIES

| | | |
|---|---|---|
| Losses and claims for losses: | | |
| Adjusted and unpaid | $307,654 70. | |
| Unadjusted | 4,229,374 30 | |
| Resisted | 20,000 00 | |
| Total | $4,557,029 00 | |
| Deduct reinsurances in companies authorized in New York | 399,450 00 | |
| Net unpaid losses and claims | | $4,157,579 00 |
| Unearned premiums | | 914,521 45 |
| Principal on scrip ordered redeemed | | 266,581 48 |
| Interest due or accrued | | 50,121 27 |
| Salaries and miscellaneous accounts due or accrued | | 12,283 18 |
| Estimated amount of taxes hereafter payable | | 400,000 00 |
| Contingent commissions or other charges due or accrued | | 127,012 92 |
| Reinsurance and return premiums due other companies | | 503,939 46 |
| Income tax withheld at source | | 3,739 93 |
| Surplus on redemption of withheld certificates of profit | | 22,592 54 |
| Outstanding certificates of profit (scrip) | | 6,140,100 00 |
| Liabilities | | $12,598,471 23 |
| Surplus to policyholders | | 6,881,835 38 |
| Total | | $19,480,306 61 |

RISKS AND PREMIUMS

| | *Marine Risks* | *Premiums* |
|---|---|---|
| In force December 31, 1917 | $174,606,430 | $1,069,550 96 |
| Written or renewed in 1918 | 778,646,862 | 6,684,891 55 |
| Totals | $953,253,292 | $7,754,442 51 |
| Deduct expirations and cancellations | 884,296,448 | 6,753,508 18 |
| In force December 31, 1918 | $68,956,884 | $1,000,934 33 |
| Deduct amount reinsured | 16,913,189 | 86,142 88 |
| Net amount in force | $52,043,655 | $914,521 45 |

## CII

## AUTOMOBILE (PRIVATE TYPE) P. L., P. D. L. & COLL. (FULL COVER) POLICY

*(Hereinafter called the Corporation) does hereby agree with the Assured named in the Declarations attached hereto, and hereby made a part hereof, as follows:*

Insurance Provided

**Agreement I.** To pay any loss by reason of the liability imposed by law upon the Assured for damages on account of bodily injuries including death at any time resulting therefrom, accidentally sustained during the policy period by any person or persons, other than employees engaged in operating or caring for the automobiles covered, as the result of the ownership, maintenance or use of any of the automobiles enumerated and described in Item 8 of the Declarations.

**Agreement II.** To pay any loss by reason of the liability imposed by law upon the Assured for damages on account of injury to, or destruction of property of any description (other than property of the Assured or property of others used by, or in charge of the Assured or any of the Assured's employees, or carried in or upon the automobiles covered hereby) as a result of the ownership, maintenance or use of any of the automobiles enumerated and described in Item 8 of the Declarations, excluding, however, loss of use of property so injured or destroyed.

**Agreement III.** To pay the Assured for actual loss by reason of injury to or destruction of any of the automobiles enumerated and described in Item 8 of the Declarations, including its operating equipment while attached thereto, if caused solely by accidental collision, during the policy period, with another object, either moving or stationary, excluding, however, injury or destruction by fire from any cause whatsoever, and injury to or destruction of tires due to puncture, cut, gash, blow-out, or other ordinary tire trouble, and excluding in any event injury or destruction of tires unless caused by an accidental collision, which also resulted in other injury or destruction of the insured automobile.

### *The Foregoing Agreements are Subject to the Following Conditions:*

Definition of Assured.

**Condition A.** The Assured, wherever referred to in this Policy, shall include the Assured named in the Declarations and any person or persons while riding in or operating any of the automobiles enumerated and described in Item 8 of the Declarations for private or pleasure purposes or for making business calls, excluding commercial delivery, with the permission of the said named Assured or with the permission of any adult member of said named Assured's household who is not a chauffeur or a domestic servant.

Limitation of Liability

(1) The Corporation's liability under this Policy is limited as expressed in Item 9 of the Declarations, which limits shall apply to each automobile covered hereby.

(2) In addition to the limits expressed in Item 9 of the Declarations the Corporation will pay all expenses resulting from claims upon the Assured on account of loss as aforesaid, and all costs taxed against the Assured, together with interest thereon, in any legal proceedings defended by the Corporation according to the agreements and conditions of this Policy, and all interest accruing after entry of judgment to date of satisfaction thereof, upon such part of said judgment as is not in excess of the limits of the Corporation's liability as expressed in Item 9 of the Declarations, but the Assured shall not voluntarily assume any liability nor shall the Assured without the written consent of the Corporation previously given incur any expense or settle any claim except at his own cost or interfere with any negotiation for settlement or any legal proceeding, *except that the Assured may provide at the Corporation's expense at the time of the accident such immediate surgical relief as is imperative.* Whenever requested by the Corporation, the Assured shall aid in securing information and evidence and the attendance of witnesses and in effecting settlements and in prosecuting appeals.

Exclusions.

**Condition B.** This Policy does not cover as regards any automobile under any of the following conditions: (1) While being operated or used by any person contrary to law as to age, or any person under the age of sixteen (16) years where no statute restricts the age, (2) while being operated on used in any race or speed test, (3) while any of the automobiles insured under this Policy are being used for towing or propelling any trailer or any other vehicle used as a trailer; (4) injuries to any employee of the Assured while engaged in or operating or caring for the automobiles covered hereby; (5) while being operated or used elsewhere than within the limits of the United States of America or the Dominion of Canada; (6) loss by reason of the liability under any Workmen's Compensation Law.

Notice.

**Condition C.** Upon the occurrence of an accident covered by this Policy, the Assured shall give immediate written notice thereof, with the fullest information obtainable at the time, to the Corporation's Home Office at or to the Corporation's authorized agent. If a claim is made on account of such accident the Assured shall give like notice thereof with full particulars. The Assured shall at all times render to the Corporation all co-operation and assistance in his power.

Defense.

**Condition D.** If thereafter any suit, even if groundless, is brought against the Assured to enforce a claim for damages on account of an accident covered by this Policy, the Assured shall immediately forward to the Corporation every summons or other process as soon as the same shall have been served on him, and the Corporation will, at its own cost, and subject to the limitations referred to in Condition A hereof, defend, or at its option, settle such suit in the name and on behalf of the Assured.

Insolvency and Bankruptcy.

**Condition E.** (1) The insolvency or bankruptcy of the Assured shall not relieve the Corporation from the payment of damages for injuries sustained or loss occasioned during the policy period. In case of such insolvency or bankruptcy an action may be maintained by the claimant against the Corporation, subject to the terms of this Policy, for an amount not exceeding the amount of this Policy. (2) No assignment of interest under this Policy shall bind the Corporation unless the consent of the Corporation shall be endorsed thereon. If the death, insolvency or bankruptcy of the Assured shall occur during the policy period, this Policy, during the unexpired portion of such period, shall cover the legal representative of the Assured.

Assignment.

Subrogation.

**Condition F.** In case of payment of loss or expense under this Policy the Corporation shall be subrogated to all rights of the Assured to the extent of such payment, and the Assured shall execute all papers required and shall cooperate with the Corporation to secure to the Corporation its rights.

## CII—*Continued*

Other Insurance. **Condition G.** If the Assured has other insurance against the loss covered by this Policy, the Assured shall not be entitled to recover from the Corporation for a larger proportion of the entire loss than the proportion that the amount of this Policy bears to the total amount of his valid and collectible insurance against such loss.

Appraisal. **Condition H.** In the event of injury to or destruction of any of the Assured's automobiles the nature and expense of the injury for which the Corporation is liable or the value of the automobile destroyed may be determined by the parties hereto, if possible; otherwise by two Appraisers, one to be chosen by the Assured and one by the Corporation. The two Appraisers so chosen, if they are not able to agree, may select the third and the award in writing of any two of the Appraisers shall determine the nature and expense of the repairs to be made at the cost of the Corporation or the value of the automobile destroyed. The Corporation and the Assured shall pay the Appraiser respectively selected by each and shall bear equally the other expenses of the Appraisal and of the third Appraiser if one is selected. The Corporation may accomplish any repairs determined by the Appraisers by such means as it may elect, or, at the option of the Corporation, may replace the automobile or pay in money the amount of the loss as fixed by the Appraisers.

Inspection. **Condition I.** The Corporation shall have reasonable time and opportunity to examine any damaged automobile or its equipment covered hereby before repairs are undertaken or physical evidence of the damage removed, but the Assured shall not be prejudiced hereunder by any act on his part or in his behalf undertaken for the protection or salvage of the damaged automobile or its equipment.

Cancellation. **Condition J.** This Policy may be cancelled at any time at the request of the Assured, or by the Corporation, upon written notice to the other party, stating when thereafter cancellation shall become effective, and the date of cancellation shall then be the end of the policy period. If such cancellation is at the Corporation's request, the earned premium shall be computed and adjusted *pro rata*. If such cancellation is at the Assured's request, the earned premium shall be computed and adjusted at short rates, in accordance with the table printed hereon. Notice of cancellation mailed to the address of the Assured as given herein shall be a sufficient notice, and the Corporation's check, similarly mailed a sufficient tender of any unearned premium.

Changes in Policy. **Condition K.** No condition or provision of this Policy shall be waived or altered, except by endorsement attached hereto, signed by the Manager and Attorney of the Corporation for the United States, nor shall knowledge possessed by any Agent or by any other person be held to effect a waiver or change in any part of this contract. Changes in the written portions of the Declarations made a part hereof (except Items 7, 8 and 9) may be made by the Agent countersigning this Policy, such changes binding the Corporation when initialed by such Agent.

Agent. **Condition L.** No person shall be deemed an Agent of the Corporation unless such person is authorized in writing as such Agent by the Manager and Attorney of the Corporation for the United States.

Special Statutes. **Condition M.** If any of the terms or conditions of this Policy conflict with the law of any State within which coverage is granted, such conflicting terms and conditions shall be inoperative in such State in so far as they are in conflict with such law. Any specific statutory provision in force in any State within which coverage is granted shall supersede any condition of this Policy inconsistent therewith.

Acceptance. **Condition N.** The Assured by the acceptance of this Policy declares the several Statements in the Declarations to be true, and this Policy is issued in consideration thereof, and of the provisions of the Policy respecting its premium, and the payment of such premium.

**In Witness Whereof,** the Corporation has caused this Policy to be executed by its authorized Manager, acting under power of attorney, but it shall not be in force until countersigned by a duly authorized General Agent of the Corporation.

By

COPY

*Countersigned at*_____

SPECIMEN COPY

SPE

*Manager and Attorney for the United States*

_____

*General Agent.*

---

**This space is for the attachment of the Declarations as in the Policy provided, which, when attached, to be construed as a part of the Policy.**

CIII

## AUTOMOBILE CERTIFICATE OF INSURANCE

*Policy No*..... *Entry No*.....

Assured, .....

Date of Entry,....., 19..... Amt. Insured, $.....

Model Year,..... Trade Name,.....

| *Type of Body (If Truck, state Tonnage)* | *Factory No.* | *Motor No.* |
|---|---|---|
| ..... | ..... | ..... |
| *New or Second Hand* | *Cost* | *Date Acquired* |
| ..... | $..... | ..... |

Will be stored at.....

*No.* *Street* *City* *State*

Contents Rate,.....Rate for this entry,.....

THE ..... INSURANCE COMPANY

*This is to Certify,* That the party or parties whose name or names appear above, as the Assured under this Certificate, is insured subject to the stipulation and conditions of

Open Policy No.....

to an amount not exceeding.....DOLLARS on the Body, Machinery and Equipment of the Automobile described herein, for not exceeding *Three Months* from the date of commencement of this Certificate, or until this Certificate is canceled in accordance with the terms of the Open Policy under which it issued.

Any loss that may be ascertained and proven to be due the assured under this Certificate shall be held payable to.....

.....

as interest may appear, subject, nevertheless, to all the terms and conditions of this Policy.

This Certificate is made and accepted subject to the stipulations and conditions of the Open Policy mentioned herein, which is hereby made a part of this contract.

*In Witness Whereof,* this Company has executed and attested these presents; but this Certificate shall not be valid unless countersigned by the duly authorized Agent of the Company at

..... *President*

.....

.....*Marine Secretary*

Dated....., 19.....

.....*Agent*

## CIV

AUTOMOBILE ENDORSEMENT

### COLLISION ENDORSEMENT

($100.00 Deductible)

*Agency*....., *192*....

In consideration of an additional premium of $..... but subject to all conditions of this Policy, the *Perils Insured Against* hereunder are extended to include *Accidental Collision,* where the damage from such collision to the automobile and/or equipment herein described is in excess of $1000.00, each accident being deemed a separate claim and said sum to be deducted from the amount of each claim when determined; excepting:

(1) Loss or damage to any tire, due to puncture, cut, gash, blowout or other ordinary tire trouble; and excluding in any event loss or damage to any tire, unless caused in an accidental collision which also causes other loss or damage to the insured automobile;

(2) Loss or damage ocurring while the automobile insured is engaged in any race or speed contest or while being operated by any person under the age limit fixed by law or in any event under the age of sixteen years.

In the event of loss or damage to said automobile whether such loss or damage is covered by this Policy or not, the liability of this Company under this Policy shall be reduced by the amount of such loss or damage until repairs have been completed, but shall then attach for the full amount as originally written, without additional premium.

The amount recoverable for accidental collision under this endorsement shall not exceed the actual cash value of the property at the time of any loss or damage, but shall not be limited by the amount of insurance named in the Policy to which this endorsement is attached.

All other terms and conditions of this Policy remaining unchanged.

Attached to and forming part of Policy No....., of the

..... INSURANCE COMPANY,

.....*Agent*

CV

AUTOMOBILE ENDORSEMENT

PROPERTY DAMAGE ENDORSEMENT "B"
(Including Omnibus Coverage)

*Agency....., 192.....*

In consideration of an additional premium of $..... but subject to all the conditions of this Policy, this insurance is extended to cover the assured's legal liability to other persons for the injury to or destruction of the property of such persons (including resultant loss of use of such property), and in addition thereto the legal expenses incurred by the assured with the consent of the Company in connection with such injury or destruction, resulting solely and directly from the ownership, maintenance or use of the automobile herein described, provided such injury or destruction occurs during the period covered by the Policy; subject, however, to the following limitations and exclusions:

(1) The property of the assured, or in charge of the assured or of any of his employees, or carried in or upon the automobile described herein, is excluded from this coverage;

(2) This Company's liability for injury or destruction is limited to the actual value of the property destroyed at the time of its destruction and/or the actual cost of the suitable repair of the property injured, but in no case shall this Company be liable with respect to claims (including claims for loss of use) arising from one accident for more than $....., and in addition thereto the legal expenses incurred by the assured with the consent of the Company.

(3) The insurance under this endorsement does not attach or cover while the automobile insured is engaged in any race or speed contest, or while being operated by any person under the age limit fixed by law or in any event under the age of sixteen years.

It is a condition of this endorsement that if action be brought against the assured to enforce a claim for damage covered hereby, he shall immediately notify the Company and promptly forward to it every summons or other paper or process served on or received by him in connection therewith.

It is a condition of this endorsement that the assured whenever requested by the Company, shall aid in effecting settlement, securing information and evidence, and the attendance of witnesses; but the assured shall not voluntarily assume any liability or interfere in any negotiation for settlement or in any legal proceeding, or incur any expense or settle any claim except at his own cost, without the written consent of the Company previously given.

The indemnity provided by this endorsement is so extended as to be available, in the same manner and under the same conditions as it is available to the named assured, to any person or persons while riding in or lawfully operating any of the insured automobiles, and to any person, firm or corporation legally responsible for the operation thereof, provided such use or operation is with the permission of the named assured, or, if the named assured is an individual, with the permission of an adult member of the named assured's household other than the chauffeur or a domestic servant.

The unqualified term "Assured" wherever used in this endorsement shall include in each instance any other person, firm or corporation entitled to indemnity under this endorsement, but the qualified term "named Assured" shall apply only to the assured named in the Policy.

If any person, firm or corporation other than the named assured carries valid and collectible insurance covering a claim also covered by this endorsement, such other person, firm or corporation shall not be entitled to indemnity under this endorsement.

All other terms and conditions of this Policy remaining unchanged.

Attached to and forming part of Policy No....., of the

..... INSURANCE COMPANY.

.....*Agent*

CVI

## FIRE, THEFT AND TRANSPORTATION AUTOMOBILE POLICY

(Approved by the National Convention of Insurance Commissioners at their December, 1919, meeting in New York.)

No. .....  Form No. 2

# Insurance Company

IN CONSIDERATION OF THE PREMIUM HEREINAFTER MENTIONED

**Does Insure** the Assured named herein, and legal representatives, for the term herein specified, to an amount not exceeding the amount of insurance herein specified, against direct loss or damage, from the perils insured against, to the Body, Machinery and Equipment of the Automobile described herein while within the limits of the United States (exclusive of Alaska, the Hawaiian Islands and Porto Rico) and Canada, including while in building, on road, on railroad car or other conveyance, ferry or inland steamer, or coastwise steamer between ports within said limits. The following are the perils insured against:

**Perils insured against.** (A) Fire, arising from any cause whatsoever; and Lightning;

(B) While being transported in any conveyance by land or water, the stranding, sinking, collision, burning or derailment of such conveyance, including general average and salvage charges for which the Assured is legally liable.

(C) Theft, robbery or pilferage, excepting by any person or persons in the Assured's household or in the Assured's service or employment, whether the theft, robbery or pilferage occur during the hours of such service or employment or not, and excepting also the wrongful conversion, embezzlement, or secretion by a mortgagor or vendee in possession under mortgage, conditional sale or lease agreement, and excepting in any case, other than in case of the theft of the entire Automobile described herein, the theft, robbery or pilferage of tools and repair equipment.

*Amount, $*.....  *Rate*.....  *Premium, $*.....

**Name of Assured**.....

**Address of Assured**..... (NO. STREET CITY COUNTY STATE)

**The term of this Policy begins at noon on the**.....day of....., 19....,

**and ends at noon on the**.....day of....., 19....., Standard time.

**Amount of Insurance**.....DOLLARS ($.....)

## WARRANTIES

1. Assured's occupation or business is.....
2. The following is the description of the Automobile:

| MODEL YEAR | LIST PRICE | TRADE NAME | TYPE OF BODY (IF TRUCK, STATE TONNAGE) | FACTORY OR SERIAL NUMBER | MOTOR NO. | NO. OF CYLINDERS | ADVERTISED HORSE POWER |
|---|---|---|---|---|---|---|---|
| | | | | | | | |

3. The facts with respect to the purchase of the Automobile described are as follows:

| PURCHASED BY THE ASSURED | | | ACTUAL COST TO ASSURED INCLUDING EQUIPMENT | THE AUTOMOBILE DESCRIBED IS FULLY PAID FOR BY THE ASSURED AND IS NOT MORTGAGED OR OTHERWISE ENCUMBERED, EXCEPT AS FOLLOWS: |
|---|---|---|---|---|
| MONTH | YEAR | NEW OR SECOND-HAND | | |
| | | | | |

4. The uses to which the Automobile described is and will be put, are.....

.....

5. The Automobile described is usually kept in.....garage, located (State whether private or public)

..... (NO. STREET CITY COUNTY STATE)

**Warranties by the assured.** The Assured's occupation or business where the subject of this insurance is used in connection therewith, the description of the Automobile insured, the facts with respect to the purchase of same, the uses to which it is and will be put, and the place where it is usually kept, as set forth and contained in this Policy, are statements of facts known to and warranted by the Assured to be true, and this Policy is issued by the Company relying upon the truth thereof.

**Property excluded.** This Company shall not be liable for:

(a) Loss or damage to robes, wearing apparel, personal effects, or extra bodies;

**War, riot, etc.** (b) Loss or damage caused directly or indirectly by invasion, insurrection, riot, civil war or commotion, military, naval or usurped power, or by order of any civil authority.

**Other insurance.** No recovery shall be had under this Policy, if at the time a loss occurs there be any other insurance covering such loss, which would attach if this insurance had not been effected.

**Cancellation.** This Policy shall be canceled at any time at the request of the Assured, in which case the Company shall, upon demand and surrender of this Policy, refund the excess of paid premium above the customary short rate premium for the expired term. This Policy may be canceled at any time by the Company by giving to the Assured a five (5) days' written notice of cancellation with or without tender of the excess of paid premium above the pro-rata premium for the expired

## CVI—*Continued*

term, which excess if not tendered shall be refunded on demand. Notice of cancellation shall state that said excess premium (if not tendered) will be refunded on demand Notice of cancellation mailed to the address of the Assured stated in the Policy shall be a sufficient notice

**Limitation of liability and method of determining same.** This Company shall not be liable beyond the actual cash value of the property at the time any loss or damage occurs, and the loss or damage shall be ascertained or estimated accordingly, with proper deduction for depreciation however caused, (and without compensation for the loss of use of the property), and shall in no event exceed what it would then cost to repair or replace the Automobile or such parts thereof as may be damaged with other of like kind and quality; such ascertainment or estimate shall be made by the Assured and this Company, or if they differ, then by appraisal as hereinafter provided

**Abandonment.** It shall be optional with this Company to take all or any part of the property at the appraised value where appraisal is had as hereinafter. provided, but there can be no abandonment thereof to this Company; and where theft is insured against the Company shall have the right to return a stolen Automobile or other property with compensation for physical damage, at any time before actual payment hereunder.

**Loss for which bailee for hire is liable.** This Company shall not be liable for loss or damage to any property insured hereunder while in the possession of a bailee for hire under a contract, stipulation or assignment whereby the benefit of this insurance is sought to be made available to such bailee. Where loss or damage occurs for which a bailee may be liable and which would otherwise be covered hereunder, this Company will advance to the Assured by way of loan the money equivalent of such loss or damage, which loan shall in no circumstances affect the question of the Company's liability hereunder and shall be repaid to the extent of the net amount collected by or for account of the. Assured from the bailee after deducting cost and expense of collection.

**Noon.** The word "Noon" herein means noon of standard time at the place the contract was made.

**Misrepresentation and fraud.** This entire Policy shall be void if the Assured has concealed or misrepresented any material fact or circumstance concerning this insurance or the subject thereof; or in case of any fraud, attempted fraud, or false swearing by the Assured touching any matter relating to this insurance or the subject thereof, whether before or after a loss.

This entire Policy shall be void unless otherwise provided by agreement in writing added hereto;

**Title and ownership.** (a) If the interest of the Assured in the subject of this insurance be other than unconditional and sole ownership; or in case of transfer or termination of the interest of the Assured other than by death of the Assured or in case of any change in the nature of the insurable interest of the Assured in the property described herein either by sale or otherwise; or

(b) If this Policy or any part thereof shall be assigned before loss.

**Encumbrance.** Unless otherwise provided by agreement in writing added hereto, this Company shall not be liable for loss or damage to any property insured hereunder,

(a) While encumbered by any lien or mortgage.

**Limitation of use.** (b) While the Automobile described herein is frequently or habitually used as a public or livery conveyance for carrying passengers for compensation, and for one week after the termination of said use; or while being rented under contract or leased, or operated in any race or speed contest.

**Protection of salvage.** In the event of loss or damage occasioned by a peril insured against herein the Assured shall protect the property from further loss or damage and any such further loss or damage occurring directly or indirectly from a failure to protect shall not be recoverable under this Policy. Any such act of the Assured or this Company or its agents in recovering, saving and preserving the property described herein, shall be considered as done for the benefit of all concerned and without prejudice to the rights of either party, and all reasonable expenses thus incurred shall constitute a claim under this Policy; provided however that this Company shall not be responsible for the payment of a reward offered for the recovery of the insured property unless authorized by the Company.

**Notice and proof of loss.** In the event of loss or damage the Assured shall give forthwith notice thereof in writing to this Company; and within sixty (60) days after such loss, unless such time is extended in writing by this Company, shall render a statement to this Company signed and sworn to by the Assured, stating the place, time and cause of the loss or damage, the interest of the Assured and of all others in the property, the sound value thereof and the amount of loss or damage thereon, all encumbrances thereon, and all other insurance whether valid or not covering said property; and the Assured, as often as required, shall exhibit to any person designated by this Company all that remains of the property insured and submit to examinations under oath by any person named by this Company, and subscribe the same; and as often as required, shall produce for examination all books of account, bills, invoices, and other vouchers, or certified copies thereof if originals be lost, at such reasonable place as may be designated by this Company or its representative, and shall permit extracts and copies thereof to be made.

**Appraisal.** In case the Assured and this Company shall fail to agree as to the amount of loss or damage, each shall, on the written demand of either, select a competent and disinterested appraiser. The appraisers shall first select a competent and disinterested umpire; and failing for fifteen (15) days to agree upon such umpire then, on request of the Assured or this Company, such umpire shall be selected by a judge of a court of record in the County and State in which the property insured was located at time of loss. The appraisers shall then appraise the loss and damage stating separately sound value and loss or damage to each item; and failing to agree, shall submit their differences only, to the umpire. An award in writing, so itemized, of any two when filed with this Company shall determine the amount of sound value and loss or damage. Each appraiser shall be paid by the party selecting him and the expenses of appraisal and umpire shall be paid by the parties equally.

**Payment of loss.** This Company shall not be held to have waived any provision or condition of this Policy or any forfeiture thereof by any requirement, act, or proceeding on its part relating to the appraisal, or to any examination herein provided for; and the loss shall in no event become payable until sixty (60) days after the notice, ascertainment, estimate and verified proof of loss herein required have been received by this Company, and if appraisal is demanded, then, not until sixty (60) days after an award has been made by the appraisers.

**Subrogation.** This Company may require from the Assured an assignment of all right of recovery against any party for loss or damage to the extent that payment therefor is made by this Company.

**Suit against Company.** No suit or action on this Policy or for the recovery of any claim hereunder shall be sustainable in any court of law or equity unless the Assured shall have fully complied with all the foregoing requirements, nor unless commenced within twelve (12) months next after the happening of the loss; provided that where such limitation

CVI—*Continued*

of time is prohibited by the laws of the State wherein this Policy is issued, then and in that event no suit or action under this Policy shall be sustainable unless commenced within the shortest limitation permitted under the laws of such State.

**This Policy is made and accepted subject to the provisions, exclusions, conditions and warranties set forth herein or endorsed hereon,** and upon acceptance of this Policy the Assured agrees that its terms embody all agreements then existing between himself and the Company or any of its agents relating to the insurance described herein, and no officer, agent or other representative of this Company shall have power to waive any of the terms of this Policy unless such waiver be written upon or attached hereto; nor shall any privilege or permission affecting the insurance under this Policy exist or be claimed by the Assured unless so written or attached.

Provisions required by law to be stated in this Policy.—This Policy is in a stock corporation.

**In Witness Whereof,** this Company has executed and attested these presents; but this Policy shall not be valid unless countersigned by a duly authorized agent of the Company at

*Marine Secretary* *President*

Countersigned at.....

This.....day of....., 19

.....*Agent*

(Approved by the National Convention of Insurance Commissioners at their December, 1919, meeting in New York.)

Form No. 2

FIRE THEFT AND TRANSPORTATION

AUTOMOBILE POLICY

No.....

INSURED

.....

MAKE AND MODEL OF CAR

.....

Amount Insured, . . . $.....

Premium, . . . . . $.....

Expires....., 19.....

## CVII

AUTOMOBILE ENDORSEMENT

### VALUED POLICY CLAUSE

*Agency*....., *192*.....

*Valued policy and automatic loss reinstatement*

In consideration of the increased rate at which this Policy is written the Automobile described herein (body, machinery and equipment), is valued at the sum insured.

In the event of loss or damage to said Automobile whether such loss or damage is covered by this Policy or not, the liability of this Company under this Policy shall be reduced by the amount of such loss or damage until repairs have been completed, but shall then attach for the full amount as originally written, without additional premium.

All other terms and conditions of this Policy remaining unchanged.

Attached to and forming part of Policy No....., of the

..... INSURANCE COMPANY,

.....*Agent*

## CVIII

AUTOMOBILE ENDORSEMENT

### LOCK WARRANTY—PRIVATE PLEASURE TYPE CARS

*Agency*....., *192*.....

In consideration of a reduction in premium, it is warranted by the Assured that the Automobile insured under this Policy will be continuously equipped with a locking device known as.....(approved by the Underwriters' Laboratories, Inc., and bearing their label) and a device for locking spare tires known as.....(similarly approved and labeled).

The Insured undertakes during the currency of this Policy to use all diligence and care in maintaining the efficiency of said locking devices and in locking the Automobile and spare tires when leaving the same unattended.

All other terms and conditions of this Policy remaining unchanged.

Attached to and forming part of Policy No....., of the

..... INSURANCE COMPANY,

.....*Agent*

## CIX

## AUTOMOBILE SCHEDULES FOR FIRE, COLLISION AND THEFT HAZARDS

### SECTION I

SCHEDULE FOR CLASSIFICATION AS TO THE FIRE HAZARD:

This schedule assumes a practicable device with the minimum of protection. To provide ample range and to employ an enlarged scale a rating of 8,000 points is assigned to such a car. When improvements as outlined by the individual items of the schedule are found incorporated in individual makes of cars submitted for classification, credits of indicated amounts are assigned, resulting in a final rating for each such individual make, type or model of car, in each case less than 8,000 and of a definite amount designed to measure the extent of hazard as compared to the assumed car of minimum protection or maximum hazard.

The features considered are built-in or integral to the car itself. The fire exposure, the moral and other hazards are not capable of analysis in this manner.

To each group of hazards is assigned a percentage of the total of 8,000 points resulting in a group total available for further proportioning among the sections, sub-sections and items comprising each group.

The object of this schedule is to provide a measure of the relative degrees of fire hazard presented by the integral features of individual makes or models of cars. To this end the schedule provides approximately 75 individual items for consideration. Manufacturers employing features in their design, assembly or equipment practice not recognized in schedule to have definite protective value should submit them for consideration and test when recognition will be given accordingly.

The word "standard," as employed in this schedule referring to devices or methods is to be understood as signifying that the Standards of the Society of Automotive Engineers apply. The word "listed" signifies a proprietary device, material or method which has been examined by Underwriters' Laboratories and classified as suitable for the specific service indicated.

The results of the Underwriters' Laboratories' Application of the schedule to individual makes and models of cars will be reported to the submittors thereof and to insurance organizations. Before the release of such reports they will be reviewed by the Automobile Council of Underwriters' Laboratories. Submittors who desire to make appeal on conclusions reached by the engineering staff of the Laboratories as to technical matters may resort to the Fire Council or if preferred to committees, if any, created for the purpose within the Society of Automotive Engineers. In either case the findings of the appeal body are to be accepted both by the submittor and the Laboratories.

CIX—*Continued*

GROUP 1 OF THE FIRE HAZARD SCHEDULE (1,200 POINTS)

Storage of Fuel (gasolene) including Sections, Capacity of Tank; Location of Tank; Construction of Tank, and Tank Mounting

*Capacity of Tank (120 points)*

| *Item No.* | *Description of Item* | *Points Credit* |
|---|---|---|
| 1. | Capacity more than 30 gallons | none |
| 2. | Capacity over 25 gallons and not over 30 gallons | 15 |
| 3. | Capacity over 20 gallons and not over 25 gallons | 35 |
| 4. | Capacity over 10 gallons and not over 20 gallons | 70 |
| 5. | Capacity not over 10 gallons | none |
| | Total credits to Tank Capacity | 120 |

*Location of Tank (600 points)*

| | | |
|---|---|---|
| 6. | Tank located in cowl and filled from under hood | none |
| 7. | Tank located in cowl but filled without opening hood | 30 |
| 8. | Tank located under front or rear seat | 120 |
| 9. | Tank located at rear of frame and not enclosed in body (See also items Nos 16 and 17) | 450 |
| | Total credits to Tank Location | 600 |

*Construction of Tank (240 points)*

| | | |
|---|---|---|
| 10. | Tank of listed construction with all seams and fittings of substantial design and good workmanship including all provisions of items Nos. 11-14, inclusive | 240 |
| 11. | Fill opening on tank of size to accommodate nozzle of service station pump (not less than 1.5 in I. D.) | 60 |
| 12. | Fill opening on tank located to permit convenient use and to avoid spilling during the operation | 50 |
| 13. | Free venting of tank during filling operation provided for in a listed manner | 60 |
| 14. | Provision made for draining tank when desired without removal from mounting | 25 |
| | Total credits to Tank Construction | 240 |

*Mounting of Tank (240 points)*

| | | |
|---|---|---|
| 15. | Tank securely mounted to prevent its becoming loose or injured from vibration and road shocks, according to method employed | 0-145 |
| 16. | At rear location, and standard load on body, no part of tank below road clearance of rear axle housing including differential housing if combined with rear axle housing | 25 |
| 17. | At rear location tank is protected from injury in rear end collision | 70 |
| | Total credits to Tank Mounting | 240 |
| | Total credits to Group 1 Fuel Storage | 1200 |

CIX—*Continued*

GROUP 2 OF THE FIRE HAZARD SCHEDULE (1,200 POINTS)

Fuel Feed System, Gravity, Pressure or Vacuum Feed

| *Item No.* | *Description of Item* | *Points Credit* |
|---|---|---|
| 18. | Gravity Feed System | none |
| 19. | Pressure Feed System | 120 |
| | For Vacuum Feed System according to conditions as follows: | |
| | (a) When vacuum tank has capacity of 1 quart or less: | |
| 20. | Vacuum tank listed construction | 215 |
| 21. | Vacuum tank placed to avoid increase of hazard when fire occurs. Usual preferred location on side of engine block opposite carburetor and remote from any sparking device and from exhaust piping. According to degree | 0-755 |
| | (b) When vacuum tank has capacity of more than 1 quart: | |
| 22. | Vacuum tank of listed construction | 190 |
| 23. | Vacuum tank location as detailed in item No. 21. According to degree | 0-570 |
| | Total points for vacuum system | 1080 |
| | Total points for Fuel Feed System | 1200 |

GROUP 3 OF THE FIRE HAZARD SCHEDULE (400 POINTS)

The Fuel Line and Fittings: Tank to Carburetor, including Sections, Tubing and Connectors; Gauges; Strainer Fittings; Shut-offs

*Tubing and Connectors (200 points)*

| | | |
|---|---|---|
| 24. | Tubing of annealed metal and seamless | 40 |
| 25. | Tubing of "non-corroding" material such as brass, bronze or copper | 10 |
| 26. | When items 24 and 25 apply and tubing is protected in a listed manner at all chafing points | 30 |
| 27. | Feed line above road clearance at all points | 20 |
| 28. | Feed line remote from or protected at all points from contact with exhaust piping or muffler | 40 |
| 29. | All connector fittings are standard or of a listed pattern | 60 |
| | Total points to Tubing and Connectors | 200 |

*Gauges (60 points)*

| | | |
|---|---|---|
| 30. | A gauge or indicator, of quantity of fuel in tank, of listed pattern and properly installed | 60 |

*Strainer Fittings (60 points)*

| | | |
|---|---|---|
| 31. | Strainer fittings of listed pattern installed in feed line between tank and carburetor (See also item No. 38) | 60 |

CIX—*Continued*

*Shut-off in Feed Line (80 points)*

| *Item No.* | *Description of Item* | *Points Credit* |
|---|---|---|
| | To shut-off supply of fuel from storage tank to carburetor: | |
| 32. | Shut-off valve provided when vacuum feed is used | 10 |
| 33. | Shut-off valve provided when pressure feed is used | 15 |
| 34. | Shut-off valve provided when gravity feed is used | 25 |
| 35. | Shut-off valve of listed pattern | 10 |
| 36. | With pressure or gravity feed shut-off valve located between carburetor and strained fitting | 10 |
| 37. | With either feed system if shut-off valve is operable from driving compartment | 20 |
| | Total points of credit to Shut-off | 80 |
| | Total points to Group 3 | 400 |

GROUP 4 OF THE FIRE HAZARD SCHEDULE (400 POINTS)

*Carburetion*

| | | |
|---|---|---|
| 38. | Carburetor of listed make or pattern | 200 |
| 39. | Carburetor located remote from magneto or other spark or flame emitting device | 60 |
| 40. | Carburetor provided with attachment insuring direct draining to ground without traps or similar hazard under hood of carburetor overflow or flooding | 140 |
| | Total points to Group 4, Carburetion | 400 |

GROUP 5 OF THE FIRE HAZARD SCHEDULE (3200 POINTS)

*Electrical Equipment:*
*Wiring (2400 points)*
*Materials (750 points)*

| | | |
|---|---|---|
| 41. | High tension ignition wires provided with insulation of listed quality and standard thickness | 75 |
| 42. | All low tension wiring provided with insulation of listed quality and standard thickness | 400 |
| 43. | All low tension wiring of ample copper capacity for current load (N. E. Code Table, Rule 18, 1918 Edition) | 275 |
| | | 750 |

*Installation*

*Connections (650 points)*

| | | |
|---|---|---|
| 44. | All splices or joints in wiring made and finished in a standard manner | 325 |
| 45. | All terminal connection to fittings, etc., made in a standard manner or with listed fittings | 325 |
| | | 650 |

CIX—*Continued*

*Supports* (350 *points*)

| *Item No.* | *Description of Item* | *Points Credit* |
|---|---|---|
| 46. | All wires suitably supported at frequent points so as to avoid drooping, chafing, excess vibration, etc | 175 |
| 47. | Supporting clamps and similar fittings such as bushings to be standard or of listed makes and properly secured | 175 |
| | | 350 |

*Protection* (650 *points*)

| | | |
|---|---|---|
| 48. | Wires protected from mechanical injury in a standard manner or with approved fittings | 200 |
| 49. | Wires located to avoid damage to insulation from heat | 200 |
| 50. | Wires protected from exposure to or contact with oil, grease or gasolene or other fuel | 250 |
| | | 650 |

*Devices* (600 *points*)

| | | |
|---|---|---|
| 51. | Switches for lighting, ignition, horn and starting circuits and other switches, if any, of patterns listed for the specific service and properly installed | 125 |
| 52. | Standard fuses in proper bases or other automatic overload protective devices listed for the specific service installed in all low tension circuits except the ignition and starting motor circuit | 125 |
| 53. | Ammeter or other current flow indicator of listed type installed in all low tension circuits | 150 |
| 54. | Ignition system listed and properly installed | 100 |
| 55. | Starting and lighting system listed and properly installed | 100 |
| | | 600 |

*Circuits* (200 *points*)

| | | |
|---|---|---|
| 56. | All low tension circuits except ignition circuit of the 2-wire insulated return type | 50 |
| 57. | Provision made for extension lamp circuit assisting car inspection | 100 |
| 58. | Ignition system not of multiple spark plug type | 50 |
| | | 200 |

GROUP 6 OF THE FIRE HAZARD SCHEDULE (600 POINTS)

EXHAUST SYSTEM HAZARDS

*Position*

| | | |
|---|---|---|
| 59. | Exhaust pipe and muffler above road clearance at all points. Standard load on body, clearance at either front axle fly wheel housing or rear axle or differential housing according to low point in exhaust line | 35 |
| 60. | Exhaust pipe extends past rear of car frame and body including fuel tank | 30 |
| 61. | Exhaust pipe has at least 1 inch clearance from nearest point of fuel tank, measured with full load on body | 30 |
| 62. | Exhaust is not exposed to accumulations of grease and drippings in mud pan or elsewhere | 270 |

CIX—*Continued*

*Temperature Rise Tests*

| *Item No.* | *Description of Item* | *Points Credit* |
|---|---|---|
| | The temperature rise tests specified below for items Nos. 63 and 64 will be made in a closed room at 70 deg. Fahrenheit with car standing still, spark regularly advanced and motor running at speed equivalent to 30 miles per hour. Readings to be taken after 1 hour run, thermometer to be wired in place with bulbs held to surface of material by 1 ounce of glazier's putty. | |
| 63. | Temperature rise not exceeding 60 deg. Fahrenheit nearest point of tank or other part of Fuel Storage or Feed system to exhaust or muffler. (Not including pre-heaters at air intake manifold of carburetor) | 30 |
| 64. | Temperature rise not exceeding 80 deg. Fahrenheit. Woodwork or other unprotected combustible material exposed to exhaust pipe of muffler | 30 |

*Muffler Cutout*

| | | |
|---|---|---|
| 65. | No muffler cutout | 30 |
| 66. | Muffler cutout used but not operable from driving compartment | 10 |
| 67. | Discharge of muffler cutout, if used, or of exhaust directed away from body or any combustible material | 25 |

*Exhaust Heater*

| | | |
|---|---|---|
| 68. | Exhaust heater not furnished | 120 |
| 69. | Exhaust heating system of listed make and properly installed avoiding temperature rise in surrounding material as specified in item No. 64 | 60 |

GROUP 7 OF THE FIRE HAZARD SCHEDULE (1000 POINTS)

*Mud Pan (500 points)*

| | | |
|---|---|---|
| 70. | No mud pan | 500 |
| 71. | Vertical side pans only | 300 |
| 72. | Horizontal side plated only | 150 |
| 73. | Sod pan not extending to rear beyond fly wheel housing | 75 |

*Gas and Oil Lighting (250 points)*

| | | |
|---|---|---|
| 74. | No gas lights used | 125 |
| 75. | No oil lights used | 125 |

*General Workmanship as Indicated by Price of Product*

| | | |
|---|---|---|
| 76. | List Price $600.00 | none |
| 77. | " " 1,100.00 | 25 |
| 78. | " " 1,600.00 | 50 |
| 79. | " " 2,100.00 | 75 |
| 80. | " " 2,600.00 | 100 |
| 81. | " " 3,100.00 | 125 |
| 82. | " " 3,600.00 | 150 |
| 83. | " " 4,100.00 | 175 |
| 84. | " " 4,600.00 | 200 |
| 85. | " " 5,100.00 | 225 |
| 86. | " " 5,600.00 or over | 250 |

CIX—*Continued*

SECTION II

SCHEDULE FOR CLASSIFICATION AS TO THE COLLISION HAZARD:

This section considers only those matters affecting damage to the automobile under consideration and which are integral in its assembly. Questions of injury to persons or of damage to other property are not pertinent.

The problem of protecting an automobile from damage in collision with other vehicles or with fixed objects has two principal phases, the first of which is positive, tending to avoid collisions. The second phase considers minimization of damage when collisions occur. This schedule treats of these phases separately and in addition takes account of items classed under a heading Miscellaneous. As in the Fire Hazard schedule a practicable car with minimum protection is assumed as the basis for classification, a total of 5,000 points is distributed among various items recognized. Ample range in classification is thereby secured and the relative importance of various details of design, assembly or equipment is more readily indicated.

The general procedure in applying the schedule is described for the Fire Hazard Schedule.

GROUP 1 OF THE COLLISION HAZARD SCHEDULE (3000 POINTS)

*Prevention of Collision Damage*

The items under this phase of the analysis of the Collision Hazard may be divided into four sections acording to the following headings:

Braking System; Steering System; Visibility, Lighting and Warning Equipment; Road Clearance

*Braking System (1500 points)*

| *Item No.* | *Description of Item* | *Points Credit* |
|---|---|---|
| 1. | Brake lining material of listed type | 375 |

*Area of Braking Surface*

(a) Service brake:

| | | |
|---|---|---|
| 2. | Area standard | 180 |
| 3. | Area 90 to 100% of standard | 145 |
| 4. | Area 75 to 90% of standard | 90 |
| 5. | Area 50 to 75% of standard | 45 |
| 6. | Area less than 50% of standard | none |

(b) Emergency brake

| | | |
|---|---|---|
| 7. | Area standard | 120 |
| 8. | Area 90 to 100% of standard | 95 |
| 9. | Area 75 to 90% of standard | 60 |
| 10. | Area 50 to 75% of standard | 30 |
| 11. | Area less than 50% of standard | none |

*Lugs on Pedals or Equivalent Protection Against Foot Slip Combination "A"*

| | | |
|---|---|---|
| 12. | Clutch pedal protected | 90 |
| 13. | Service brake pedal protected | 135 |

CIX—*Continued*

*Combination "B"*

| *Item No.* | *Description of Item* | *Points Credit* |
|---|---|---|
| 14. | Combined clutch and service brake pedal protection | 135 |
| 15. | Emergency brake pedal protection | 90 |

*Brake Linkage Leverage*

| | | |
|---|---|---|
| | (a) Service brake leverage | |
| 16. | Leverage standard | 180 |
| 17. | Leverage 90-100% of standard | 145 |
| 18. | Leverage 75-90% of standard | 90 |
| 19. | Leverage 50-75% of standard | 45 |
| 20. | Leverage less than 50% of standard | none |
| | (b) Emergency brake leverage | |
| 21. | Leverage standard | 120 |
| 22. | Leverage 90-100% of standard | 95 |
| 23. | Leverage 75-90% of standard | 60 |
| 24. | Leverage 50-75% of standard | 30 |
| 25. | Leverage less than 50% of standard | none |

*Emergency Hand Brake Location*

| | | |
|---|---|---|
| 26. | Grip of emergency hand brake not forward of lower edge of dash when brake is in released position | 40 |
| 27. | Grip of emergency hand brake when in released position not more than.....inches from low point of steering wheel rim | 80 |
| 28. | Access to hand brake not interfered with by gear shift lever or other obstruction | 30 |
| 29. | For adequate means of preventing lubrication reaching brake linings | 75 |
| 30. | For two independent braking systems | 75 |

*The Steering System (900 points)*

| | | |
|---|---|---|
| 31. | Steering gear of listed pattern | 135 |
| 32. | Steering gear provided for at least 1½ revolutions of steering wheel between left and right-hand stop position of the front wheels | 90 |
| 33. | No part of steering gear mechanism lower than road clearance of front axle | 90 |
| 34. | Castellated nut and cotter pin or other method of positive fastening used in securing all essential bolts, sods, etc., in steering mechanism | 135 |
| 35. | Left-hand drive | 225 |
| 36. | Standard practice of front wheel steering | 225 |

CIX—*Continued*

*Visibility, Lighting and Warning Equipment (300 points)*

*Visibility,* as employed in this schedule, has to do with the ability of the driver of the car being classified to see the road and objects therein by day or night.

| *Item No.* | *Description of Item* | *Points Credit* |
|---|---|---|
| 37. | Headlight lenses of listed pattern and headlights suitably arranged with regard thereto | 75 |
| 38. | Equipment included windshield cleaner of listed pattern | 15 |

*Lighting,* as employed in this schedule, has to do with the signalling to drivers of other vehicles of the presence on the road of the car being classified.

| | | |
|---|---|---|
| 39. | Rear light and lens equipment of listed pattern | 90 |
| 40. | Light in driving compartment in series with tail light | 15 |
| 41. | Side or front lights below level of top of rim of steering wheel | 45 |

Warning, signifies means of signaling to following traffic intentions of driver with regard to stopping or turning.

| | | |
|---|---|---|
| 42. | Equipment included warning signal of listed make properly installed | 60 |

*Road Clearance (300 points)*

Road clearance to be measured from a plane surface to the center point front axle drop oil case, fly wheel housing or differential housing on rear axle. Brake drums on rear wheels and steering knuckle connections if not outside of brake drum line not to be regarded.

| | | |
|---|---|---|
| 43. | Clearance not less than standard (9 inches) | 300 |
| 44. | Clearance not more than 8½ inches | 225 |
| 45. | Clearance not more than 8 inches | 150 |
| 46. | Clearance not more than 7½ inches | 30 |
| 47. | Clearance 7 inches or less | none |

GROUP 2 OF THE COLLISION HAZARD SCHEDULE (1000 POINTS)

*Minimization of Damage:*

*Fenders*

| | | |
|---|---|---|
| 48. | Fender crowns of one piece | 40 |
| 49. | Front fenders not projecting beyond tire of other part which might protect them (not including bumpers if used) | 100 |
| 50. | Fenders without moulded bowls for headlights or other special shapes | 60 |

*Radiator Protection*

| | | |
|---|---|---|
| 51. | Listed radiator guard used or special location of radiator or in its absence | 200 |

*Frame Cross Braces*

| | | |
|---|---|---|
| 52. | Substantial front cross frame brace built in within 6 inches of spring shackle | 225 |
| 53. | Substantial rear cross frame brace or equivalent device located to protect tank or body or other light parts | 75 |

*Bumper Equipment*

| | | |
|---|---|---|
| 54. | Equipment included front bumper of listed make | 225 |
| 55. | Equipment included rear bumper of listed make | 75 |

CIX—*Continued*

GROUP 3 OF THE COLLISION HAZARD SCHEDULE (1000 POINTS)

*Miscellaneous or General Items*

| *Item No.* | *Description of Item* | *Points Credit* |
|---|---|---|
| 56. | Equipment included listed self-starting system | 750 |

*Workmanship and Stability as Indicated by Price of Product*

| | | |
|---|---|---|
| 57. | List Price $600.00 | none |
| 58. | " " 1,100.00 | 25 |
| 59. | " " 1,600.00 | 50 |
| 60. | " " 2,100.00 | 75 |
| 61. | " " 2,600.00 | 100 |
| 62. | " " 3,100.00 | 125 |
| 63. | " " 3,600.00 | 150 |
| 64. | " " 4,100.00 | 175 |
| 65. | " " 4,600.00 | 200 |
| 66. | " " 5,100.00 | 225 |
| 67. | " " 5,600.00 or over | 250 |

## SECTION III

SCHEDULE FOR CLASSIFICATION AS TO THE THEFT HAZARD:

Experience to date indicates that the chief factor influencing the theft of automobiles is the readiness with which they may be disposed of and put to subsequent use without recognition as stolen property. In other words, the greater the number of cars in service of a given model and design the more attractive an individual car of that model becomes to persons contemplating theft. To some extent the number of thefts of automobiles is regulated by the density of population. These and other considerations prevent detailed analysis of individual makes or models of cars as to physical features of design and assembly for the purpose of classification as to the theft hazard.

Makers of automobiles may assist in some measure in retarding theft and may assist in the reduction of insurance losses from theft by providing for more ready and positive identification of individual units of production. To encourage their cooperation in these directions, automobiles submitted to Underwriters' Laboratories for classification as to the Fire and Collision hazards under the foregoing schedules will be classified as to features bearing on the Theft Hazard, as follows:

*Theft Retardants*

*Built-in or Integral Equipment of Listed Locking Device*

| | | |
|---|---|---|
| 1. | Transmission type, Class A | 20% |
| 2. | Steering wheel type, Class B | 17.5% |
| 3. | Combined gasolene and ignition type, Class C | 15% |
| 4. | Ignition only type, Class D | 12.5% |
| 5. | For stock equipment consisting of listed spare tire lock either integral or accessory in addition to either 1 or 4 above | 5% |

*Identification*

| | | |
|---|---|---|
| 6. | For standard marking of frame | 7.5% |
| 7. | For standard marking of engine block | 7.5% |
| 8. | If both items Nos. 6 and 7 apply | 5% |

Deductions according to the foregoing to be successive in the order of above listing as they apply. Credits for one item only Nos. 1 to 4, inclusive.

SAMPLE PAGE OF AUTOMOBILE LIABILITY, PROPERTY DAMAGE AND COLLISION RATES

**LIABILITY AND PROPERTY DAMAGE RATES**

PRIVATE PASSENGER AUTOMOBILES
(Gas or Steam)

BASIC COVERAGE
(See the "Basic Coverage" Rule in the Private Passenger Section)

| Terr. | Symbol W | | Symbol X | | Symbol Y | | Symbol Z | |
|---|---|---|---|---|---|---|---|---|
| | P. L. | P. D. | P. L. | P. D. | P. L. | P. D. | P. L. | P. D. |
| 1 | $100.00 | $22.50 | $119.00 | $25.00 | $144.00 | $29.00 | $176.00 | $33.50 |
| 2 | 55.00 | 15.50 | 65.00 | 17.50 | 79.00 | 20.00 | 97.00 | 23.00 |
| 3 | 47.00 | 15.00 | 56.00 | 16.50 | 68.00 | 19.00 | 82.00 | 22.00 |
| 4 | 38.00 | 13.00 | 45.00 | 14.50 | 55.00 | 16.50 | 67.00 | 19.50 |
| 5, 5A | 28.50 | 10.00 | 34.00 | 12.00 | 41.00 | 13.50 | 50.00 | 15.50 |
| 6 | 23.00 | 10.00 | 27.00 | 12.00 | 33.00 | 13.50 | 40.00 | 15.50 |
| 7 | 17.00 | 8.00 | 20.00 | 10.00 | 25.00 | 11.00 | 30.00 | 12.00 |
| 8 | 12.00 | 6.00 | 14.00 | 7.00 | 17.00 | 8.00 | 21.00 | 9.00 |

**COLLISION RATES—PRIVATE PASSENGER AUTOMOBILES**
(Gas or Steam) (Age Group 1)

**Full Coverage**

| Collision Symbol | Terr. 1 and 2 | Terr. 3 and 4 | Terr. 5 and 6 | Terr. 7 | Terr. 8 |
|---|---|---|---|---|---|
| A | $179 | $163 | $117 | $62 | $55 |
| B | 205 | 187 | 139 | 74 | 65 |
| C | 245 | 222 | 170 | 90 | 79 |
| D | 274 | 248 | 186 | 98 | 87 |
| E | 296 | 269 | 194 | 104 | 91 |
| | ... | ... | ... | ... | ... |
| | ... | ... | ... | ... | ... |
| U | 395 | 360 | 238 | 126 | 112 |

**$50 Deductible**

| Collision Symbol | Terr. 1 and 2 | Terr. 3 and 4 | Terr. 5 and 6 | Terr. 7 | Terr. 8 |
|---|---|---|---|---|---|
| A | $46 | $42 | $24 | $18 | $17 |
| B | 56 | 50 | 29 | 22 | 21 |
| C | 76 | 67 | 36 | 30 | 28 |
| D | 91 | 88 | 44 | 36 | 33 |
| E | 109 | 99 | 50 | 43 | 37 |
| | ... | ... | ... | ... | ... |
| | ... | ... | ... | ... | ... |
| U | 237 | 216 | 108 | 93 | 81 |

**$100 Deductible**

| Collision Symbol | Terr. 1 and 2 | Terr. 3 and 4 | Terr. 5 and 6 | Terr. 7 | Terr. 8 |
|---|---|---|---|---|---|
| A | $24 | $21 | $11 | $11 | $10 |
| B | 25 | 23 | 12 | 12 | 11 |
| C | 29 | 27 | 16 | 14 | 12 |
| D | 37 | 35 | 19 | 17 | 15 |
| E | 45 | 41 | 22 | 21 | 17 |
| | ... | ... | ... | ... | ... |
| | ... | ... | ... | ... | ... |
| U | 171 | 156 | 88 | 77 | 66 |

## STANDARD SCHEDULE (See Territorial Application)

### PRIVATE PASSENGER AUTOMOBILES (Gasoline and Steam)

| Age Groups | Class Symbols and Rates for Fire and Transportation Coverage | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | A | B | C | D | E | F | G | H |
| 1 | .40 | .45 | .55 | .65 | .75 | 1.00 | 1.25 | 1.50 |
| 2 | .45 | .55 | .70 | .85 | 1.15 | 1.50 | 1.75 | 2.00 |
| 3 | .45 | .70 | .90 | 1.15 | 1.55 | 2.05 | 2.25 | 2.50 |
| 4 | .65 | .90 | 1.25 | 1.60 | 2.05 | 2.55 | 2.75 | 3.00 |
| 5 | 1.20 | 1.40 | 1.75 | 2.10 | 2.55 | 3.15 | 3.25 | 3.50 |

| Age Groups | Class Symbols and Rates for Theft Coverage | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | ‡ | ‡ | ‡ | ‡ |
| | L | M | N | O | P | Q | R | S | T | U | V | W |
| 1 | .25 | .35 | .55 | .75 | 1.00 | 1.50 | 2.00 | 2.50 | 3.25 | 4.00 | 5.85 | 6.85 |
| 2 | .25 | .35 | .55 | .75 | 1.00 | 1.50 | 2.00 | 2.50 | 3.25 | 4.00 | 5.65 | 6.65 |
| 3 | .25 | .35 | .55 | .75 | 1.00 | 1.00 | 1.50 | 2.00 | 2.50 | 3.25 | 5.45 | 6.45 |
| 4 | .25 | .35 | .55 | .60 | .75 | .75 | 1.25 | 1.75 | 2.00 | 2.75 | 4.90 | 5.90 |
| 5 | .25 | .35 | .55 | .60 | .75 | .75 | 1.25 | 1.50 | 1.50 | 2.25 | 4.40 | 5.40 |

### COMMERCIAL AUTOMOBILES* (Gasoline and Steam)

| Age Groups | Class Symbols and Rates for Fire and Transportation Coverage | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | A | B | C | D | E | F | G | H | I |
| 1 | .75 | .80 | .90 | 1.00 | 1.15 | 1.25 | 1.55 | 1.85 | 2.35 |
| 2 | .80 | .85 | 1.00 | 1.15 | 1.35 | 1.65 | 2.05 | 2.35 | 2.85 |
| 3 | .90 | .95 | 1.15 | 1.35 | 1.65 | 2.05 | 2.60 | 2.85 | 3.35 |
| 4 | 1.00 | 1.05 | 1.35 | 1.70 | 2.10 | 2.55 | 3.10 | 3.35 | 3.85 |
| 5 | 1.50 | 1.60 | 1.85 | 2.20 | 2.60 | 3.05 | 3.60 | 3.85 | 4.35 |

| Class Symbols and Rates for Theft Coverage | | | |
|---|---|---|---|
| L | M | N | O |
| .15 | .30 | .50 | .75 |
| .15 | .30 | .50 | .75 |
| .15 | .30 | .50 | .75 |
| .15 | .30 | .50 | .75 |
| .15 | .30 | .50 | .75 |

Class Symbol Z — Refers to Special Rates Page 4

### ELECTRIC AUTOMOBILES† (Private Passenger and Commercial Types)

| Age Groups | Class Symbol and Rate for Fire and Transportation Coverage | Class Symbol and Rate for Theft Coverage |
|---|---|---|
| | X | Y |
| 1 | .75 | .10 |
| 2 | .95 | .10 |
| 3 | 1.15 | .10 |
| 4 | 1.50 | .10 |
| 5 | 2.00 | .10 |

### DEFINITION OF AGE GROUPS REFERRED TO HEREIN

**Age Group 1** — Automobiles purchased new not more than 6 months prior to date insurance attaches.

**Age Group 2** — Automobiles purchased new not more than 18 months prior to date insurance attaches.

**Age Group 3** — Automobiles purchased new not more than 30 months prior to date insurance attaches.

**Age Group 4** — Automobiles purchased new not more than 42 months prior to date insurance attaches.

**Age Group 5** — Automobiles purchased new more than 42 months prior to date insurance attaches.

Automobiles **PERMANENTLY** fitted with bodies of truck or commercial type; omnibuses, patrol wagons, and other automobiles not specially designated.

†All automobiles of private passenger and commercial types, propelled wholly by electric power. Dual power automobiles (those propelled by gasoline and electricity) are classified as gasoline automobiles.

CXII

SAMPLE AUTOMOBILE CLASSIFICATION SHEET

| Year | Model | Adv. H.P. | Type of Body | List Price | F | T | C | PD | PL |
|---|---|---|---|---|---|---|---|---|---|
| **GERONIMO Motor Co., Enid, Okla.** | | | | | | | | | |
| 1918 | 4-A-40 (4) | 37 | Touring | 895 | E | T | D | W | |
| | 6 A-45(6) | 45 | 5-Ps. Tour. | 1,395 | E | T | F | X | |
| | | | Road. | 1,550 | E | T | F | X | |
| | | | Chummy Rd. | 1,550 | E | T | F | X | |
| | | | 7-Ps. Tour. | 1,600 | E | T | F | X | |
| 1919 | 6 A-45(6) | 45 | Rd., 5-Ps. Tour. | 1,550 | E | T | F | X | |
| | | | 4-Ps. Chummy Rd. | 1,550 | E | T | F | X | |
| | | | 7-Ps. Tour. | 1,595 | E | T | F | X | |
| 1920 | 6-A-45 (6) | 50 | 5-Ps. Speedster | 1,995 | E | T | F | X | |
| | 6-G-45 (6) | 50 | Roadster | 1,995 | E | T | F | X | |
| ***GHENT Motor Co., Chicago, Ill.** | | | | | | | | | |
| 1917 | 438 (4) | 38 | 5-Pass. Tour | 990 | E | T | E | W | |
| ***GHENT Motor Co., Ottawa, Ill.** | | | | | | | | | |
| 1918 | 660 (6) | 55 | Road., Tour. | 1,875 | E | T | G | X | |
| | | | Sedan | 2,500 | E | P | J | X | |
| ***G. J. G. Motor Car Co., White Plains, N. Y.** | | | | | | | | | |
| 1912-15 | All models | | | .... | E | O | † | † | |
| ***GLEASON—Bauer Machine Works, Kansas City, Mo.** | | | | | | | | | |
| 1913 | All models | | | .... | E | T | † | † | |
| ***GLEASON—Kansas City Vehicle Co., Kansas City, Mo.** | | | | | | | | | |
| 1912 | All models | | | .... | E | T | † | † | |
| ***GLIDE—Bartholomew Co., The, Peoria, Ill.** | | | | | | | | | |
| 1913-15 | All models | | | .... | E | T | † | † | |
| 1916 | 640 (6) | 40 | Touring | 1,095 | E | T | F | X | |
| | | | Touring | 1,125 | E | T | G | X | |
| 1917 | 640 (6 cy) | 40 | 5-Ps. Tr., 4-Ps. Rd. | 1,295 | E | T | G | X | |
| | | | Sedan | 1,495 | E | P | G | X | |
| 1918 | 6-40 (6) | 40 | 5-Ps. Tr., 4-Ps. Rd. | 1,655 | E | T | G | X | |
| | | | Sedan | 1,795 | E | P | G | X | |
| **GRANT Motor Car Co., Cleveland, Ohio.** | | | | | | | | | |
| 1913 | All models | | | .... | E | T | † | † | |
| **GRANT Motor Car Corp., Findlay, Ohio.** | | | | | | | | | |
| 1913-16 | All models | | | .... | E | T | † | † | |
| **GRANT Motor Car Corp., Cleveland, Ohio.** | | | | | | | | | |
| 1917 | K (6) | 34-36 | 3-Ps. Rd., 5-Ps. Tr. | 875 | E | T | D | X | |
| | | | 5-Ps. Tr. Sedan | 1,050 | E | Q | E | X | |
| | | | 3-Ps. Cabriolet | 1,100 | E | T | F | X | |
| | | | Sedan Roadster | 1,010 | E | T | E | X | |
| 1918 | G (6) | 34-36 | 3-Ps. Rd., 5-Ps. Tr. | 1,245 | E | T | D | X | |
| | | | Detachable Sedan | 1,500 | E | T | E | X | |
| | | | All-Weather Cpe. | 1,725 | E | Q | F | X | |
| | | | All-Weather Sdn. | 1,745 | E | Q | F | X | |
| 1919 | G (6) | 34-36 | 3-Ps. Rd., 5-Ps. Tr. | 1,120 | E | T | D | X | |
| | | | Detachable Sedan | 1,400 | E | T | E | X | |
| | | | All-Weather Coupe | 1,625 | E | Q | F | X | |
| | | | All weather Sedan | 1,645 | E | Q | F | X | |
| 1920 | G (6) | 35-40 | 3-Ps. Rd., 5-Ps. Tr. | 1,595 | E | T | E | X | |
| | | | Coupe, Sedan | 2,450 | E | Q | H | X | |

CXIII

No.....

## CREDIT INSURANCE POLICY

## THE ..... INSURANCE CO.

(Hereinafter called the Company).

*In Consideration* of the representations and warranties made in the application for this Policy, or any prior Policy of Credit Insurance issued to the Insured by this Company, which are hereby made a part of this Contract, and upon payment of _____ Dollars premium,

*Hereby Guarantees* under the conditions and subject to the stipulations set forth on the within pages, _____, of _____, engaged in the business of _____, against loss due to insolvency of debtors, as hereinafter defined, which shall occur within a term beginning the _____ day of _____ 19___ and ending the _____ day of _____ 19___ and result from the Insured's bona fide sales of merchandise shipped and delivered during said term in the usual course of business to individuals, firms, co-partnerships or corporations, in the United States of America or any Territory thereof and in the Dominion of Canada; and which is covered, proven and allowed, as is hereinafter stipulated. From the aggregate net loss, ascertained in adjustment as hereinafter provided, there shall be deducted first, ten per cent. (10%) thereof as co-insurance, and from the remainder an agreed Normal Loss of _____ per cent., to be borne by the Insured, upon the total gross sales made during said term; but such Normal Loss so to be deducted shall be not less than $_____; and the remainder, if any, after said deductions, shall be the loss payable by the Company.

This Policy does not cover any loss occurring prior to the payment of the premium thereon, although the Policy may have been delivered, nor any loss occurring after its expiration, nor any loss that is not a valid indebtedness against the debtor.

The Conditions and Stipulations on the within pages are a part of this Contract.

*In Witness Whereof* the , has caused this Policy to be signed by its authorized General Manager for the United States of America, acting under power of attorney, but the same shall not be binding upon the Company unless countersigned by its Assistant General Manager, in the City of this _____ day of _____ 192___

COPY OF POLICY APPLIED FOR IN APPLICATION ON FOURTH PAGE

CXIII—*Continued*

## Conditions and Stipulations.

1—COVERAGE—No loss is covered by this Policy, unless the debtor to whom the goods were shipped and delivered shall have in the latest published book of the _____ Mercantile Agency, at the date of the shipment, a capital rating and its accompanying credit rating, as tabulated below.

The books of the said Mercantile Agency shall respectively govern shipments from the first day of the month named by said book to the first day of the month named by the next subsequent book, except that where the said Mercantile Agency increases or reduce a rating by report, compiled during the currency of the latest published book or within thirty (30) days prior to the date thereof, shipments made after the Insured has received such report shall be governed by the rating in such report, the same as if the said rating had appeared in the latest published book.

The gross amount to be covered on any one debtor at the date of insolvency shall be limited to the amount set opposite the corresponding rating of the debtor in the subjoined "Table of Ratings":

The aggregate gross amount covered on the accounts of any one debtor shall not exceed the amount owing by the debtor, nor exceed the limit applicable to such debtor as specified above.

The total amount covered on the indebtedness of a debtor having more than one governing rating shall be limited to the amount set opposite the debtor's highest governing rating, except that where the debtor's highest governing rating is reduced, shipments made thereafter shall not be covered so long as the debtor owes the amount set opposite the reduced governing rating in the "Table of Ratings". If, however, the debtor owes less than the said amount, the total amount covered on all governing ratings shall not exceed the limit set opposite the said reduced rating.

(NAMES NOT IN BOOK)—A shipment to a debtor, whose name does not appear in the said latest published book at the date of the shipment, shall be governed by the rating in the latest report of said Agency on such debtor compiled within four months prior to the shipment, and if no such report was compiled within four months prior to the shipment, then by the first report of said Agency on such debtor compiled within four months after the shipment. Every such governing rating shall have the same effect as if contained in said latest published book at the time of shipment.

2—INSOLVENCY DEFINED—For the purposes of this Policy a debtor shall be deemed to be insolvent:
(1) When, during the term of this Policy, the Insured elects to file with the Company for collection, an account that is due and payable at the time of filing, but not over sixty (60) days past due, under the original terms of sale;
(2) When a petition in bankruptcy or insolvency is filed by or against a debtor under the laws of the United States, or any State or Territory thereof, or of Canada;
(3) When a debtor makes an offer of a general compromise to his creditors for less than his indebtedness;
(4) When a receiver is appointed for a debtor;
(5) In case of the death or insanity of a sole debtor;
(6) In case of the recording of or taking possession under a chattel mortgage given by a debtor on his stock in trade to a creditor or creditors;
(7) When an attachment or execution is levied on a debtor's stock in trade;
(8) When a writ of attachment or execution against a debtor is returned unsatisfied;
(9) When a debtor transfers or sells out his stock in trade in bulk;
(10) When a debtor absconds;
(11) When a debtor makes an assignment, or a deed of trust, for the benefit of his creditors, either general or with prefereaces;
(12) When the stock in trade of a debtor is sold under a writ of attachment or execution;
(13) When a confession of judgment is made by a debtor;
(14) When a debtor's business is assigned to or taken over by a Committee appointed by a majority in number and amount of his creditors;

Provided that the Insured shall take no action in respect of any indebtedness against a debtor, insolvent under any of the definitions of insolvency above set forth, that would preclude its prompt collection by the Company unless the Company's consent thereto in writing is first obtained.

3—NOTIFICATION OF CLAIM.

When an account is placed with the Company for collection under Subdivision 1 of Condition 2 of this Policy, the Insured shall file with it a Notification of Claim on the form prescribed by the Company.

Within fifteen (15) days after acquiring knowledge of a debtor's insolvency under Subdivisions 2 to 14, inclusive, of Condition 2 of this Policy, the Insured shall file Notification of Claim and forthwith place the account against such debtor with the Company for collection.

All accounts for collection and all Notifications of Claim shall be filed with the Company at _____

The Company will supply the blank forms for filing Notification of Claim.

All claims filed with the Company under this Policy, shall be handled upon the Conditions and Stipulations as provided in Condition 4 of this Policy.

4—COLLECTION OF ACCOUNTS AND SCHEDULE OF FEES—Each Notification of Claim filed with the Company in accordance with the provisions of Condition 3 shall be accompanied by an itemized statement of the account showing fully the true condition thereof, together with all notes or other papers evidencing the same, and any guarantees, securities, or other documents relating thereto; and the Insured shall upon request, promptly furnish duplicate invoices, proofs of debt, affidavits, or any other documents, or any information necessary for the proper handling of any account in any proceeding.

Where an account is disputed, in whole or in part, or where the Company deems it necessary to enforce collection, or to enable the Insured to participate in any proceeding involving the estate of the debtor, the Insured shall authorize suit or other proceedings, and shall promptly advance the necessary costs.

## CXIII—*Continued*

If any payment or return of merchandise is made by the debtor direct to the Insured, or if the account is withdrawn by the Insured, the costs and fees as herein provided shall be paid to the Company by the Insured, the same as if collection had been effected.

The receipt, retention or the handling by the Company of any account filed by the Insured under this Policy shall not constitute a waiver of any of its Conditions or Stipulations.

The Company assumes all responsibility for moneys collected by its agents and correspondents in the United States, or any Territory thereof, and Canada, and will promptly remit all amounts due to the Insured as collections are made.

On each account filed with the Company under Condition 3 of this Policy, the following fees shall govern on collections effected:

(1) Where the Company effects collection without placing the account with an attorney:

Seven and one-half (7½%) per cent. of the first Three Hundred ($300) Dollars or less.
Four (4%) per cent. on the next Seven Hundred ($700) Dollars.
Two (2%) per cent. on the excess over One Thousand ($1,000) Dollars.
Minimum fee Two Dollars and Fifty Cents ($2.50).

(2) Where the Company deems it necessary to secure the services of an attorney:

Fifteen (15%) per cent. of the first Three Hundred ($300) Dollars or less.
Eight (8%) per cent. on the next Seven Hundred ($700) Dollars.
Four (4%) per cent. on the excess over One Thousand ($1,000) Dollars.
Minimum fee Five ($5) Dollars.
Claims under Ten ($10) Dollars, fee 50%.
Minimum suit fee Seven Dollars and Fifty Cents ($7.50) in addition to the fees, the whole not to exceed Fifty (50%) per cent. of the claim.

In localities where collection fees or rates are established by law or by bar rules, such law or bar rules shall govern, or if the Commercial Law League of America shall adopt a higher or lower schedule of fees than hereinabove set forth, in schedule (2), such revised schedule so adopted, shall govern on all claims filed with the Company thereafter.

When litigation or unusual proceedings are authorized by the Insured, a reasonable attorney's fee, in addition to the regular collection fee, will be charged.

5—FINAL STATEMENT OF CLAIM—If any claim for excess loss is made under this Policy, a Final Statement of Claim, duly sworn to, shall be made by the Insured upon blank forms which will be furnished by this Company upon application, and such Final Statement must be received by this Company at its office in _____ within thirty (30) days after the expiration of this Policy; otherwise there shall be no liability upon the part of the Company under this Policy.

The adjustment shall be had within forty-five (45) days after the receipt by this Company of such Final Statement, and the amount, if any, then ascertained to be due on covered proved losses shall at once become payable.

6—METHOD OF ADJUSTMENT—To ascertain the net loss in any adjustment under this Policy, there shall be deducted from each gross loss covered and proven under this Policy:

(1) All discounts to which the debtor would have been entitled had the debt been paid at the date of insolvency;
(2). All amounts collected thereon and all amounts which may have been obtained from any other source;
(3) The amount of goods returned or replevined, when such goods are in the undisputed possession of the Insured;
(4) All amounts mutually agreed upon as thereafter obtainable.

If no mutually satisfactory agreement should be reached, as to the amounts thereafter obtainable on any loss, this Company shall allow the unpaid part of such loss, so far as covered. The Insured shall assign to this Company all accounts admitted in adjustment, together with all securities and guarantees relating thereto, except those accounts upon which the amount thereafter obtainable is mutually agreed upon. Such assigned accounts shall be handled by the Company for the joint account of the Insured and the Company as their interests may appear.

If the indebtedness of the debtor to the Insured at the time of the insolvency is not covered in full by this Policy, then said deductions shall be made pro-rata, viz: in the ratio which the amount covered bears to the whole of such indebtedness.

From the aggregate amount of the net covered and proven losses thus ascertained, there shall be deducted, (first), ten per cent. (10%) thereof, as co-insurance; (second), the agreed Normal Loss, and the balance, if any, shall be the amount due the Insured. If the net amounts realized by the Company on the claims assigned to it, as above provided, shall in the aggregate exceed the sum paid to the Insured, the Company shall refund the net excess.

7—COLLATERAL BENEFITS—This Policy is not negotiable but the Company will, upon written request of the Insured, provide that any excess loss, that may become due and payable under its Conditions and Stipulations, shall be paid to any Bank or Trust Company designated by, and for account of the Insured.

8—TERMINATION—If, during the term of this Policy, the Insured shall become insolvent, or shall cease to continue business as heretofore carried on, or shall go into liquidation, or being a partnership shall be dissolved, then this Policy shall immediately terminate and if any claim for excess loss is made, a Final Statement of Claim shall be filed by, and an adjustment shall be made with, the Insured in the same time and manner as if this Policy had originally by its terms been made to expire at the date of such termination. Temporary interruption by fire or by strike, or the death or withdrawal or admission of a member of a partnership composed of more than two members, shall not be considered a discontinuance or dissolution.

9—GENERAL PROVISIONS—The premium on this Policy shall be paid by check to the order of the Company

This Company will acknowledge the receipt of all Notifications of Claim and the Final Statement of Claim, but neither the acknowledgment nor the retention thereof by this Company, nor its failure to acknowledge receipt, shall be deemed an admission of liability or a waiver of any of the provisions of this Policy by this Company.

The representations and warranties made in the application of the Insured are the basis of, and a part of, this Policy. Misrepresentation, concealment or fraud in obtaining this Policy or any Policy of Credit Insurance heretofore issued by this Company to the Insured, or in the proof or adjustment of any claim for loss under this Policy, shall void this Policy from its beginning and the premium paid shall be forfeited. The Insured shall permit this Company to examine and take extracts from the books, securities and papers, of the Insured bearing upon any matter involved in any adjustment under this Policy, or upon any representation or warranty made in the application for this Policy or any prior Policy of Credit Insurance issued by this Company to the Insured, or upon any claim made either by the Insured or by this Company under this Policy.

No Agent is authorized to make any alteration in, or addition to, this Policy; and no addition to, or alteration of, this Policy shall be valid unless signed by the General Manager of the Company for the United States.

All provisions of this Policy are to be deemed conditions precedent to any claim by the Insured.

No suit or action on this Policy shall be brought or be sustainable until after compliance by the Insured with the terms of this Policy, nor, in the absence of any statutory provision to the contrary, unless commenced within twelve months after its expiration.

CXIII—*Continued*

## Application.

We, the undersigned, hereby make application to the

for a Policy of Credit Insurance; said Policy, if issued, to be on the within form, the terms, conditions and stipulations whereof are agreed to by us. We herewith tender our check for $_____ to the order of said Company in payment of the premium on said Policy.

We agree that the ratings of the _____ Mercantile Agency shall govern exclusively shipments under this Policy: We have been subscribers to said Mercantile Agency during the past _____ years.

Our answers to the following questions are true:

1. What is your line of business? _____ How long in it? _____ years.
2. Are you Jobbers or Manufacturers? _____
3. What territory do you cover? _____
4. To what territory do you make your principal shipments? _____
5. What are your usual terms of sale? _____ What are your longest terms of sale? _____
6. About what percentage of sales to Manufacturers? _____ Jobbers? _____ Retailers? _____
7. Have you any information detrimental to the credit or responsibility of any individual, firm, co-partnership or corporation to whom you have made, or contemplate making, any sale to which said Policy, if issued, will apply?

_____

8. Have you within the past year made, or do you contemplate making, any material change in the manner of conducting your business, terms of sale or territory mentioned above? _____

As a basis of the Policy hereby applied for, and of any Policy which may hereafter be issued to us, we warrant the following statement of our gross sales, losses, and amounts of accounts owing by debtors under general extension, to be correct:

| TERM During the Year Ending: | GROSS SALES | ALL LOSSES (after deducting only actual cash recoveries from debtors to date). | AMOUNTS OF ACCOUNTS owing by Debtors Under General Extension. |
|---|---|---|---|
| _____ 19__ | $_____ | $_____ | $_____ |
| _____ 19__ | $_____ | $_____ | $_____ |
| _____ 19__ | $_____ | $_____ | $_____ |
| _____ 19__ | $_____ | $_____ | $_____ |
| _____ 19__ | $_____ | $_____ | $_____ |
| _____ 19__ | $_____ | $_____ | $_____ |
| _____ 19__ | $_____ | $_____ | $_____ |
| During the Fractional Year to Date. | $_____ | $_____ | $_____ |

This application and said Policy, if issued, shall, with the within Conditions and Stipulations, constitute the entire agreement between the undersigned and the ) any verbal or written statement, promise or agreement, by any Agent of the said Company to the contrary notwithstanding. It is also agreed that this application, whether as respects anything contained therein or omitted therefrom, has been made, prepared and written by the applicant, or by his own proper agent.

Dated at _____ this _____ day of _____ 19__

Signature of applicant _____

_____

Address _____

_____

$_____ _____ 192__

Received of the

_____ Dollars,

in full and complete satisfaction of all claims and demands of whatsoever kind or nature under the within Policy of Credit Insurance, and _____ hereby release, and forever discharge the said Company from any and all liability thereunder.

_____

CXIV

## CREDIT INSURANCE POLICY

No.....

(Hereinafter called the Company)

*In Consideration* of the representations and warranties made in the application for this Policy, or any prior Policy of Credit Insurance issued to the Insured by this Company, and which are hereby made a part of this Contract, and of the payment of the premium as hereinafter provided,

*Hereby Guarantees* under the conditions and subject to the stipulations set forth on the within pages, _____ of _____, engaged in the business of _____, against loss, due to the insolvency of debtors as hereinafter defined, which loss shall result from the Insured's bona fide sales of merchandise shipped and delivered during the Policy period, beginning the _____ day of _____ 19____, and ending the _____ day of _____ 19____, to individuals, firms, co-partnerships or corporations, in the United States of America, or any Territory thereof, and in the Dominion of Canada; and which is covered, proven and allowed, as is hereinafter stipulated; provided the accounts have been placed with the Company for collection before they are more than seventy-five (75) days past due under the original terms of sale and provided further that no account filed with the Company after the _____ day of _____ 19____, shall be covered by this Policy. From the aggregate gross loss so covered, proven and allowed, there shall be deducted, first, ten per cent. (10%) thereof as co-insurance, and then the other amounts hereinafter provided in the method of adjustment, and from the aggregate net loss thus ascertained an agreed Normal Loss of _____ per cent., to be borne by the Insured, upon the total gross sales made during said Policy period; but such Normal Loss so to be deducted shall be not less than $_____, and the remainder, if any, after said deductions, shall be the loss payable by the Company.

This Policy does not cover any loss occurring prior to the payment of the minimum premium thereon, although the Policy may have been delivered, nor any loss that is not a valid indebtedness against the debtor.

The Conditions and Stipulations on the within pages are a part of this Contract.

*In Witness Whereof* the _____, has caused this Policy to be signed by its authorized General Manager for the United States of America, acting under power of attorney, but the same shall not be binding upon the Company unless countersigned by its Assistant General Manager in the City of _____ this _____ day of _____ 192____.

COPY OF POLICY APPLIED FOR IN APPLICATION ON FOURTH PAGE

## CXIV—*Continued*

## Conditions and Stipulations

1—**PREMIUM**—The earned premium for the full Policy period shall be _____ per cent. of the total gross shipments and deliveries made by the Insured during said period, but shall not be less than _____ ($_____) Dollars, minimum, which shall be payable to the Company when application is made for this Policy, and the remainder of the earned premium, if any, shall be paid immediately upon ascertainment of the amount, and the Insured shall, when requested, furnish the Company with the amount of the aforesaid shipments and deliveries.

2—**COVERAGE**—No loss is covered by this Policy unless the debtor to whom the goods were shipped and delivered shall have in the latest published book of the _____ Mercantile Agency, at the date of the shipment, a capital rating and its accompanying credit rating, as tabulated below.

The books of the said Mercantile Agency shall respectively govern shipments from the first day of the month named by said book to the first day of the month named by the next subsequent book, except that where the said Mercantile Agency increases or reduces a rating by report, compiled during the currency of the latest published book or within thirty (30) days prior to the date thereof, shipments made after the Insured has received such report shall be governed by the rating in such report, the same as if the said rating had appeared in the latest published book.

The gross amount to be covered on any one debtor at the date of insolvency shall be limited to the amount set opposite the corresponding rating of the debtor in the subjoined "Table of Ratings:"

The aggregate gross amount covered on the accounts of any one debtor shall not exceed the amount owing by the debtor, nor exceed the limit applicable to such debtor as specified above.

The total amount covered on the indebtedness of a debtor having more than one governing rating shall be limited to the amount set opposite the debtor's highest governing rating, except that where the debtor's highest governing rating is reduced, shipments made thereafter shall not be covered so long as the debtor owes the amount set opposite the reduced governing rating in the "Table of Ratings." If, however, the debtor owes less than the said amount, the total amount covered on all governing ratings shall not exceed the limit set opposite the said reduced rating.

(NAMES NOT IN BOOK)—A shipment to a debtor, whose name does not appear in the said latest published book at the date of the shipment, shall be governed by the rating in the latest report of said Agency on such debtor compiled within four months prior to the shipment, and if no such report was compiled within four months prior to the shipment, then by the first report of said Agency on such debtor compiled within four months after the shipment. Every such governing rating shall have the same effect as if contained in said latest published book at the time of shipment.

3—**INSOLVENCY DEFINED**—For the purpose of this Policy a debtor shall be deemed to be insolvent:

(1) When the Insured files with the Company for collection, an account that is due and payable at the time of filing, but not over seventy-five (75) days past due, under the original terms of sale;
(2) When a petition in bankruptcy or insolvency is filed by or against a debtor under the laws of the United States, or any State or Territory thereof, or of Canada;
(3) When a debtor makes an offer of a general compromise to his creditors for less than his indebtedness;
(4) When a receiver is appointed for a debtor;
(5) In case of the death or insanity of a sole debtor;
(6) In case of the recording of or taking possession under a chattel mortgage given by a debtor on his stock in trade to a creditor or creditors;
(7) When an attachment or execution is levied on a debtor's stock in trade;
(8) When a writ of attachment or execution against a debtor is returned unsatisfied;
(9) When a debtor transfers or sells out his stock in trade in bulk;
(10) When a debtor absconds;
(11) When a debtor makes an assignment, or a deed of trust, for the benefit of his creditors, either general or with preferences;
(12) When the stock in trade of a debtor is sold under a writ of attachment or execution;
(13) When a confession of judgment is made by a debtor;
(14) When a debtor's business is assigned to or taken over by a Committee appointed by a majority in number and amount of his creditors;

Provided that the Insured shall take no action in respect of any indebtedness against a debtor, insolvent under any of the definitions of insolvency above set forth, that would preclude its prompt collection by the Company unless the Company's consent thereto in writing is first obtained.

4—**NOTIFICATION OF CLAIM**—When an account is placed with the Company for collection under Subdivision 1 of Condition 3 of this Policy, the Insured shall file with it a Notification of Claim, on the form prescribed by the Company.

Within fifteen (15) days after acquiring knowledge of a debtor's insolvency under Subdivisions 2 to 14, inclusive, of Condition 3 of this Policy, the Insured shall file Notification of Claim and forthwith place the account against such debtor with the Company for collection.

All accounts for collection and all Notifications of Claim shall be filed with the Company at _____

The Company will supply the blank forms for filing Notifications of Claim.

All claims filed with the Company under this Policy, shall be handled upon the Conditions and Stipulations as provided in Condition 5 of this Policy.

5—**COLLECTION OF ACCOUNTS AND SCHEDULE OF FEES**—Each Notification of Claim filed with the Company in accordance with the provisions of Condition 4 shall be accompanied by an itemized statement of the account showing fully the true condition thereof, together with all notes or other papers evidencing the same, and any guarantees, securities, or other documents relating thereto; and the Insured shall upon request, promptly furnish duplicate invoices, proofs of debt, affidavits, or any other documents, or any information necessary for the proper handling of any account in any proceeding.

Where an account is disputed, in whole or in part, or where the Company deems it necessary to enforce collection, or to enable the Insured to participate in any proceeding involving the estate of the debtor, the Insured shall authorize suit or other proceedings, and shall promptly advance the necessary costs.

If any payment or return of merchandise is made by the debtor direct to the Insured, or if the account is withdrawn by the Insured, the costs and fees as herein provided shall be paid to the Company by the Insured, the same as if collection had been effected.

The receipt, retention or the handling by the Company of any account filed by the Insured under this Policy shall not constitute a waiver of any of its Conditions and Stipulations.

The Company assumes all responsibility for moneys collected by its agents and correspondents in the United States, or any Territory thereof, and Canada, and will promptly remit all amounts due the Insured as collections are made.

## CXIV—*Continued*

**On each account filed with the Company under Condition 4 of this Policy, the following fees shall govern on collections effected:**

**(1) Where the Company effects collection without placing the account with an attorney:**
Seven and one-half (7½%) per cent of the first Three Hundred ($300.00) Dollars or less
Four (4%) per cent. on the next Seven Hundred ($700.00) Dollars.
Two (2%) per cent. on the excess over One Thousand ($1,000 00) Dollars.
Minimum fee Two Dollars and Fifty Cents ($2.50.)

**(2) Where the Company deems it necessary to secure the services of an attorney·**
Fifteen (15%) per cent. of the first Three Hundred ($300 00) Dollars or less.
Eight (8%) per cent. on the next Seven Hundred ($700.00) Dollars.
Four (4%) per cent. on the excess over One Thousand ($1,000.00) Dollars.
Minimum fee Five ($5 00) Dollars.
Claims under Ten ($10.00) Dollars, fee Fifty (50%) per cent.
Minimum suit fee Seven Dollars and Fifty Cents ($7.50) in addition to the fees, the whole not to exceed Fifty (50%) per cent of the claim.

In localities where collection fees or rates are established by law or by bar rules, such law or bar rules shall govern, or if the Commercial Law League of America shall adopt a higher or lower schedule of fees than hereinabove set forth, in Schedule (2), such revised schedule so adopted, shall govern on all claims filed with the Company thereafter.

When litigation or unusual proceedings are authorized by the Insured, a reasonable attorney's fee, in addition to the regular collection fee will be charged.

**6—CLAIM FOR EXCESS LOSS:**

Final Statement of Claim—If any claim for excess loss is made under this Policy, a Final Statement of Claim, duly sworn to, shall be made by the Insured upon blank forms which shall be furnished by this Company upon application, and such final statement must be received by this Company at its office in Chicago, Illinois, within thirty (30) days after the last date permitted for filing accounts under this Policy; otherwise there shall be no liability upon the part of the Company under this Policy.

The adjustment shall be had within forty-five (45) days after the receipt by this Company of such Final Statement, and the amount, if any, then ascertained to be due on covered proved losses shall at once become payable.

Interim Statements of Claim—For the purpose of enabling the Insured to receive adjustments from time to time under this Policy, and prior to the final adjustment, the Insured shall be privileged to file with the Company preliminary statements of claim for excess loss, upon blank forms which shall be furnished by this Company upon application; provided that no claim for loss shall be included in such preliminary statements, nor considered in any interim adjustment under this Policy, unless the insolvency shall have been as defined in Subdivisions (2) to (14), inclusive, of Condition 3 of this Policy. Claims on accounts filed for collection under Subdivision (1) of said Condition 3, unless they have become insolvent under Subdivisions (2) to (14), shall not be considered prior to a final adjustment under this Policy

The Company, within forty-five (45) days after the receipt of any such statements of claim, shall adjust all accounts mentioned therein, that were insolvent under Subdivisions (2) to (14) of Condition 3 as aforesaid, and filed within the time provided, and which come within the Conditions and Stipulations of this Policy, and immediately pay to the Insured the amount of excess loss, if any, then found due

In no event shall the amount of Normal Loss deducted in all adjustments under this Policy exceed in the aggregate the amount of the agreed Normal Loss as ascertained in the final adjustment.

If the Company has paid to the Insured, in all interim adjustments under this Policy, prior to ascertaining the actual amount of the aforesaid agreed Normal Loss, an amount in excess of the amount which would have been paid if the amount of such actual Normal Loss had been ascertainable at the time of such payment, the Insured shall at once refund such excess to the Company.

**7—METHOD OF ADJUSTMENT**—To ascertain the net loss in any adjustment under this Policy, there shall be deducted from each covered and proven gross loss, less the co-insurance thereon:

(1) All discounts to which the debtor would have been entitled had the debt been paid at the date of insolvency,
(2) All amounts collected thereon and all amounts which may have been obtained from any other source;
(3) The amount of goods returned or replevined, when such goods are in the undisputed possession of the Insured;
(4) All amounts mutually agreed upon as thereafter obtainable.

If no mutually satisfactory agreement should be reached, as to the amounts thereafter obtainable on any loss, this Company shall allow the unpaid part of such loss, so far as covered. The Insured shall assign to this Company all accounts admitted in adjustment, together with all securities and guarantees relating thereto, except those accounts upon which the amount thereafter obtainable is mutually agreed upon. Such assigned accounts shall be handled by the Company for the joint account of the Insured and the Company as their interests may appear.

If the indebtedness of the debtor to the Insured at the time of the insolvency is not covered in full by this Policy, then said deductions shall be made pro rata, viz.: in the ratio which the amount covered bears to the whole of such indebtedness.

From the aggregate amount of the net covered proven losses thus ascertained, there shall be deducted the agreed Normal Loss, and the balance, if any, shall be the amount due the Insured. If the net amounts realized by the Company on the claims assigned to it, as above provided, shall in the aggregate exceed the total sum paid to the Insured, the Company shall refund the net excess.

**8—COLLATERAL BENEFITS**—This Policy is not negotiable but the Company will, upon written request of the Insured, provide that any excess loss, that may become due and payable under its Conditions and Stipulations shall be paid to any Bank or Trust Company designated by, and for account of the Insured.

**9—TERMINATION**—This Policy may be terminated at any time by either of the parties hereto, upon ten (10) days' written notice to the other party, stating when termination shall be effective.

If the Insured elects to terminate the Policy the earned premium shall be computed and adjusted as provided for in Condition 1, on the Insured's gross shipments and deliveries to the date of such termination, and the Company shall refund to the Insured the unearned premium, if any, less twenty (20%) per cent. If any claim for excess loss is made, a Final Statement of Claim shall be filed by, and an adjustment shall be made with, the Insured in the same time and manner as if this Policy had originally by its terms been made to end at the date of such termination; provided, however, that only such covered accounts as were filed with the Company prior to the date of such termination shall be covered by this Policy.

If, during the term of this Policy, the Insured shall become insolvent, or shall cease to continue business as heretofore carried on, or shall go into liquidation, or being a partnership shall be dissolved, then this Policy shall *ipso facto* terminate and shall be adjusted, in all respects, the same as though the Insured had elected to terminate this Policy as above. Temporary interruption by fire or by strike, or the death or withdrawal or admission of a member of a partnership composed of more than two members, shall not be considered a discontinuance or dissolution.

If the Company elects to terminate this Policy the earned premium shall be computed and adjusted as provided for in Condition 1, on the Insured's gross shipments and deliveries to the date of such termination, and the Company shall refund to the Insured the unearned premium, if any, but no tender or payment of any unearned premium is required to make termination by the Company effective. Covered losses on shipments made up to the date of such termination shall be provable under this Policy, and the Normal Loss shall be calculated only on the gross shipments made up to the date of such termination. If any claim for excess loss is made, a Final Statement of Claim shall be filed by the Insured not later than _____ days after the date of such termination, but Interim Statements of claim may be filed prior to said date and adjustment shall be made with the Insured in the same time and manner as if this Policy had originally by its terms been made to end at the date of such termination.

**10—GENERAL PROVISIONS**—The premium on this Policy shall be paid by check to the order of the
COMPANY

This Company will acknowledge receipt of all Notifications of Claim and Interim and Final Statements of Claim, but neither the acknowledgment nor the retention thereof by this Company, nor its failure to acknowledge receipt, shall be deemed an admission of liability or a waiver of any of the provisions of this Policy by this Company.

The representations and warranties made in the application of the Insured are the basis of, and a part of, this Policy. Misrepresentation, concealment or fraud in obtaining this Policy or any Policy of Credit Insurance heretofore issued by this Company to the Insured, or in the proof or adjustment of any claim for loss under this Policy, shall void this Policy from its beginning and the premium paid shall be forfeited. The Insured shall permit this Company to examine and take extracts from the books, securities and papers of the Insured bearing upon any matter involved in any adjustment under this Policy, or upon any representation or warranty made in the application for this Policy or any prior Policy of Credit Insurance issued by this Company to the Insured, or upon any claim made either by the Insured or by this Company under this Policy.

The rendering of any estimate or statement or making of any previous settlement shall not bar the examination herein provided for, nor the Company's right to additional premium, nor to a refund of any amount overpaid to the Insured prior to verification by the Company.

No Agent is authorized to make any alteration in, or addition to, this Policy; and no addition to, or alteration of, this Policy shall be valid unless signed by the General Manager of the Company for the United States.

All provisions of this Policy are to be deemed conditions precedent to any claim by the Insured.

No suit or action on this Policy shall be brought or be sustainable until after compliance by the Insured with the terms of this Policy, nor, in the absence of any statutory provision to the contrary, unless commenced within twelve months after its expiration.

CXV

## SURETY BOND (INDIVIDUAL)

THE ..... INSURANCE CO.

*AMOUNT.* *PREMIUM.*

$_____ *BOND No. F.*_____ $_____

SPECIMEN COPY

**In consideration of** a certain premium and of the statements and representations made by_____ (hereinafter called the Employer) Employer. _____ (hereinafter called the Corporation), Corporation. hereby agrees to reimburse the Employer for such pecuniary loss not exceeding_____ Dollars ($_____) Amount. as the Employer shall have sustained of money or other personal property (including that for which the Employer is responsible) by any act or acts of fraud, dishonesty, forgery, theft, embezzlement, wrongful abstraction or wilful misapplication on the part of_____ Insuring clause. Employed. (hereinafter called the Employed) directly or through connivance with others, committed by the Employed in connection with the duties of any position to which he may be assigned by the Employer during the term of this bond or of any renewal thereof.

CXV—*Continued*

The foregoing agreement is subject to the following conditions:

Term.

1. The term of this bond begins on the.....day of.....19....., at noon, standard time, at the Employer's address hereinbefore stated, and ends on the.....day of..... 19....., at noon, standard time, at the said address. In case this bond is renewed for one or more terms, the entire period for which the bond is in force shall be deemed the term of the bond.

Amount of Corporation's liability.

2. This bond may be continued from year to year so long as the Corporation and the Employer agree so to do, but the aggregate liability of the Corporation from the effective date of this bond to the date of the expiration or any renewal of this bond for or on account of any act or acts of the Employed, shall not exceed the amount for which the Employed shall have been specifically guaranteed at the time such act or acts shall have been committed.

Not liable for pre-existing debt.

3. The Corporation shall not be liable hereunder for any default, the proceeds of which shall have been applied to the payment to the Employer of a pre-existing debt.

Cancellation of bond.

4. This bond may be cancelled by the Corporation upon thirty days' notice to the Employer, or by the Employer upon notice in writing to the Corporation specifying the date of the termination. Thereupon the Corporation shall refund the unearned premium for the bond, if no claim has arisen thereunder.

When loss is to be discovered.

5. The Employer shall file with the Corporation any claim for which the Corporation is liable hereunder within fifteen months after the Employed shall have died or left the service of the Employer, or within fifteen months after the lapsing or cancellation of this bond from any cause whatsoever.

Notice of loss.

6. The Employer shall notify the Corporation of any act of the Employed which would constitute a claim hereunder immediately or as soon as practicable after such act shall have come to the knowledge of the Employer. The Corporation shall be responsible hereunder only for any acts of the Employed up to the time of such notification, and if the Employer shall condone any fraudulent act of the Employed and continue him in service without notifying the Corporation, all losses subsequent to such condonation shall be irrevocable against the Corporation.

Payment of claim.

Payment of claim under this bond shall be made within three calendar months after requisite proof shall have been afforded the Corporation of the loss and of the validity of the claim made, such proof to include, if the Corporation shall so desire, an itemized statement of the claim, giving the dates when the losses occurred.

Employer's right of recovery.

8. No suit or action shall be maintained under this bond until after three months from the date of filing proof with the Corporation, nor shall be brought at all unless within two years from the time when the cause of action accrued.

Arbitration of disputed liability.

9. In the case of disputed liability, if the Corporation and the Employer shall so elect, any claim made hereunder shall be subject to arbitration in the manner following: The Employer and the Corporation shall each appoint one arbitrator; such arbitrators shall appoint a third; and the decision of the majority both as to the amount in dispute and as to the expenses of the arbitration shall be final.

CXV—*Continued*

**In Witness Whereof,** the Corporation has caused this bond to be executed by its authorized Manager, but this bond shall not be in force until countersigned by a duly authorized Agent of the Corporation.

By

*Manager and Attorney for the United States.*

*Countersigned at* _____

*Date* _____

*By* _____
*Agent.*

Bond No. F.....

Issued in behalf of

.....

to

.....

.....

Bond Expires .....19....

Amount, $.....

CXVI

SURETY BOND (SCHEDULE)

THE ..... INSURANCE CO.

*AMOUNT.* *PREMIUM.*

$_____ *BOND No. F.*_____ $_____

SPECIMEN COPY

**In consideration of** a certain premium and of the statements and representa-

Employer. tions made by_____

(hereinafter called the Employer)

Corporation. (hereinafter called the Corporation), hereby agrees to reimburse the Employer, subject to the terms and conditions herein set forth, for the loss of any money or other personal property (including that for which the

Insuring Clause. Employer is responsible), as shall be sustained by the Employer by reason of the fraud, dishonesty, forgery, theft, embezzlement, wrongful abstraction or wilful misapplication on the part of any of the Employes named in the schedule attached hereto and hereby made a part of this bond or hereafter added thereto by an acceptance notice executed by the Corporation during the term of this bond or of any renewal thereof.

Form 2469—Fidelity Schedule.

## CXVI—*Continued*

The foregoing agreement is subject to the following conditions:

**Term.** 1. The term of this bond begins on the.....day of.....19....., at noon, standard time, at the Employer's address hereinbefore stated, and ends on the.....day of..... 19....., at noon, standard time, at the said address. In case this bond is renewed for one or more terms, the entire period for which the bond is in force shall be deemed the term of the bond.

**Amount of Corporation's liability.** 2. This bond may be continued from year to year so long as the Corporation and the Employer agree so to do, but the aggregate liability of the Corporation from the effective date of this bond to the date of the expiration or any renewal of this bond for or on account of any act or acts of any Employe specified on said schedule or added thereto shall not exceed the amount for which the Employe shall have been specifically guaranteed at the time such act or acts shall have been committed.

**Not liable for pre-existing debt.** 3. The Corporation shall not be liable hereunder for any default, the proceeds of which shall have been applied to the payment to the Employer of a pre-existing debt.

**Cancellation of bond.** 4. This bond may be cancelled by the Corporation upon thirty days' notice to the Employer, or by the Employer upon notice in writing to the Corporation specifying the date of the termination. Thereupon the Corporation shall refund the unearned premium for the bond, if no claim has arisen thereunder.

**When loss is to be discovered.** 5. The Employer shall file with the Corporation any claim for which the Corporation is liable hereunder within fifteen months after the retirement of any Employe from the service of the Employer, or within fifteen months after the lapsing or cancellation of this bond from any cause whatsoever.

**Notice of loss.** 6. The Employer shall notify the Corporation of any act of any Employe which would constitute a claim hereunder immediately or as soon as practicable after such act shall have been discovered by the Employer. The Corporation shall be responsible hereunder only for any acts of the Employe up to the time of such discovery, and, if the Employer shall condone any fraudulent act of the Employe and continue him in service without notifying the Corporation, all losses subsequent to such condonation shall be irrevocable against the Corporation.

**Payment of claim** 7. Payment of claim under this bond shall be made within three calendar months after requisite proof shall have been afforded the Corporation of the loss and of the validity of the claim made, such proof to include, if the Corporation shall so desire, an itemized statement of the claim, giving the dates when the losses occurred.

**Employer's right of recovery.** 8. No suit or action shall be maintained under this bond until after three months from the date of filing proof with the Corporation, nor shall be brought at all unless within two years from the time when the cause of action accrued.

**Arbitration of disputed liability** 9. In the case of disputed liability, if the Corporation and the Employer shall so elect, any claim made hereunder shall be subject to arbitration in the manner following. The Employer and the Corporation shall each appoint one arbitrator; such arbitrators shall appoint a third; and the decision of the majority both as to the amount in dispute and as to the expenses of the arbitration shall be final.

CXVI—*Continued*

**In Witness Whereof,** the Corporation has caused this bond to be executed by its authorized Manager, but this bond shall not be in force until countersigned by a duly authorized Agent of the Corporation.

By

*Manager and Attorney for the United States.*

*Countersigned at*.....

*on*.....

*by*.....

*Agent.*

SPECIMEN COPY

Bond No. F.....

Issued to.....

Bond Expires.....19....

CXVII

CONTRACTORS' BOND

**FIDELITY AND GUARANTY COMPANY**

**NO.**_____ **$**_____

**Know all Men by these Presents,** That _____

a corporation organized under the laws of the State of _____ (hereinafter called the Principal) and the FIDELITY AND GUARANTY COMPANY, a corporation created and existing under the laws of the State of Maryland, and whose principal office is located in (hereinafter called the Surety), are held and firmly bound unto

(hereinafter called the Obligee), in the full and just sum of _____ Dollars, lawful money of the United States, to the payment of which sum, well and truly to be made, the said Principal binds itself, its successors and assigns, and the said Surety binds itself, its successors and assigns, jointly and severally, firmly by these presents.

Signed, sealed and delivered this _____ day of _____ A. D. 19____

**Whereas,** said Principal has entered into a certain written contract with the Obligee,

SPECIMEN COPY

CXVII—*Continued*

**Now, therefore,** The condition of the foregoing obligation is such that if the said Principal shall well and truly indemnify and save harmless the said Obligee from any pecuniary loss resulting from the breach of any of the terms, covenants and conditions of the said contract on the part of the said Principal to be performed, then this obligation shall be void; otherwise to remain in full force and effect in law: PROVIDED, however, that this Bond is issued subject to the following conditions and provisions:

**First.**—That no liability shall attach to the Surety hereunder unless, in the event of any default on the part of the Principal in the performance of any of the terms, covenants or conditions of the said contract, the Obligee shall promptly, and in any event not later than thirty days after knowledge of such default, deliver to the Surety at its office in the City of written notice thereof with a statement of the principal facts showing such default and the date thereof; nor unless the said Obligee shall deliver written notice to the Surety at its office aforesaid, and the consent of the Surety thereto obtained, before making to the Principal the final payment provided for under the contract herein referred to.

**Second.**—That in case of such default on the part of the Principal, the Surety shall have the right, if it so desire, to assume and complete or procure the completion of said contract; and in case of such default, the Surety shall be subrogated and entitled to all the rights and properties of the Principal arising out of the said contract and otherwise, including all securities and liabilities theretofore received by the Obligee and all deferred payments, retained percentages and credits due to the Principal at the time of such default, or to become due thereafter by the terms and dates of the contract.

**Third.**—That in no event shall the Surety be liable for a greater sum than the penalty of this Bond, or subject to any suit, action or other proceeding thereon that is instituted later than the_____ day of_____ A. D. 19____

**Fourth.**—(*a.*) That the Surety shall not be liable for damages for injuries to the person of anyone, under or by authority of any statutory provision for damages or compensation to any employe, or otherwise; and

(*b.*) Shall not be obligated to furnish any bond or obligation other than the one executed.

**In testimony whereof,** the said Principal has caused these presents to be sealed with its corporate seal, attested by the signature of its duly authorized officers, and the said Surety has caused these presents to be sealed with its corporate seal, duly attested by the signature of its Attorney-in-tact, the day and year first above written.

_____ (SEAL)

Signed, sealed and delivered in the presence of

_____ (SEAL)

_____ (SEAL)

**Fidelity and Guaranty Company.**

_____

*Attorney-in-fact.*

SPECIMEN COPY

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